Ontario

Ministry of Finance

# Public Accounts of Ontario

## Financial Statements of Crown Corporations, Boards, Commissions

2002-2003

VOLUME 2

Ontario

Ministry of Finance

# Public Accounts of Ontario

## Financial Statements of Crown Corporations, Boards, Commissions

2002-2003

VOLUME 2

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# MINISTERIAL RESPONSIBILITY FOR GOVERNMENT ENTERPRISES, ORGANIZATIONS, TRUSTS & OTHER

- Minister of Agriculture and Food
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- Ministry of Attorney General
  - Legal Aid Ontario
  - Ontario Lottery and Gaming Corporation
  - The Public Guardian and Trustee for the Province of Ontario
- Minister of Consumer and Business Services
  - Liquor Control Board of Ontario
- Minister of Culture
  - The Centennial Centre of Science and Technology
  - Ontario Trillium Foundation
  - Royal Ontario Museum
- Ministry of Education
  - Education Quality and Accountability Office
- Minister of Environment and Energy
  - Hydro One Inc.
  - Independent Electricity Market Operator
  - Ontario Power Generation
  - Ontario Clean Water Agency
- Minister of Finance
  - Deposit Insurance Corporation of Ontario
  - Losses deleted from the accounts
  - Motor Vehicle Accident Claims Fund
  - Ontario Electricity Financial Corporation
  - Ontario Financing Authority
  - Ontario Securities Commission
  - Provincial Judges Pension Fund
  - Revenue remissions
- Minister of Health and Long Term Care
  - Cancer Care Ontario
  - Smart Systems for Health
- Minister of Labour
  - Workplace Safety and Insurance Board
- Chair of Management Board of Cabinet (Management Board Secretariat)
  - Ontario Pension Board
  - Ontario Realty Corporation
- Minister of Municipal Affairs and Housing
  - Ontario Housing Corporation
- Minister of Natural Resources
  - Algonquin Forestry Authority
- Minister of Northern Development and Mines
  - Northern Ontario Heritage Fund Corporation
  - Ontario Northland Transportation Commission
- Minister of Tourism and Recreation
  - Metropolitan Toronto Convention Centre Corporation
  - Ontario Place Corporation
  - Niagara Parks Commission
- Minister of Training, Colleges and Universities
  - Ontario Educational Communications Authority (TV Ontario)
- Minister of Transportation
  - Greater Toronto Transit Authority
  - Toronto Area Transit Operating Authority

# A GUIDE TO PUBLIC ACCOUNTS

## 1. SCOPE OF THE PUBLIC ACCOUNTS

The 2002-2003 Public Accounts of the Province of Ontario comprise the **Annual Report and Financial Statements** and three volumes:

Volume 1 contains the Consolidated Revenue Fund schedules and Ministry statements. The Consolidated Revenue Fund reflects the financial activities of the government's ministries on a modified cash basis.

Volume 2 contains the financial statements of significant provincial crown corporations, boards and commissions which are part of the government's reporting entity and other miscellaneous financial statements.

Volume 3 contains the details of expenditure and the Ontario Public Sector salary disclosure.

## 2. A GUIDE TO VOLUME 2 OF THE PUBLIC ACCOUNTS

The financial statements of the selected crown corporations, boards and commissions are for fiscal periods ending within the Province's own fiscal period April 1, 2002 to March 31, 2003. They are presented in the same detail as the approved, audited financial statements and as nearly as possible in the same form. The statements have been presented in the order shown in the Table of Contents. In addition, a listing is provided which groups the crown corporations, boards and commissions by ministerial responsibility.

## ONTARIO PUBLIC SECTOR SALARY DISCLOSURE

The *Public Sector Salary Disclosure Act* requires employers in the public sector to disclose the names, positions, salaries and taxable benefits of employees paid $100,000 or more in the previous calendar year. One of the requirements is to include the information with their annual report or financial statements.

The employees of the following enterprises, organizations, trusts and ministry employees are paid through the Ontario government payroll system. Therefore, any employees paid $100,000 or more in 2002 are listed in the OPS listing in Volume 3 of the Public Accounts:

Algonquin Forestry Authority
Northern Ontario Heritage Fund Corporation
Ontario Electricity Financial Corporation
Ontario Housing Corporation
Smart Systems for Health
Motor Vehicle Accident Claims Fund
Provincial Judges Pension Fund
The Public Guardian and Trustee for the Province of Ontario

The following enterprises, organizations and trusts had no employees who were paid $100,000 or more in 2002:

Agricorp

For enterprises, organizations and trusts who have employees who were paid $100,000 or more in 2002, the listing required by the Act is included with their financial statements in this volume.

# GOVERNMENT ENTERPRISES

# *Algonquin Forestry Authority*

## Management's Responsibility for Financial Information

Management and the Board of Directors are responsible for the financial statements and all other information presented in this Annual Report. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgements.

The Algonquin Forestry Authority is dedicated to the highest standards of integrity in its business. To safeguard the Authority's assets, the Authority has a sound and dynamic set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the Algonquin Forestry Authority Act.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal control. The Board of Directors meets regularly to oversee the financial activities of the Authority and at least annually to review the financial statements and the external auditors' report thereon, and recommends them to the Minister of Natural Resources for approval.

The financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

| | |
|---|---|
| Tim Doyle | C. Corbett |
| Tim Doyle C.A.<br>Treasurer | Carl Corbett R.P.F.<br>General Manager |

**Auditor's Report**

To the Members,
Algonquin Forestry Authority,
and to the Minister of Natural Resources

I have audited the statement of financial position of the Algonquin Forestry Authority as at March 31, 2003 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June , 2003

J . R. McCarter, C.A.
Assistant Provincial Auditor

## Statement of Financial Position

### Year Ended March 31

| | 2003 | 2002 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash | $ 1,172,091 | $ 4,231,088 |
| Temporary investments | 1,802,453 | --- |
| Receivables | 4,688,724 | 4,393,397 |
| Inventory | 716,559 | 473,320 |
| Prepaids | 12,261 | 2,672 |
| | 8,392,088 | 9,100,477 |
| Capital assets (Note 4) | 1,733,972 | 1,606,019 |
| | $ 10,126,060 | $ 10,706,496 |
| **Liabilities** | | |
| Current | | |
| Payables and accruals | $ 755,350 | $ 727,708 |
| Contractors' performance holdbacks | 81,624 | 65,803 |
| Due to Consolidated Revenue Fund | 596,343 | 741,803 |
| | 1,433,317 | 1,535,314 |
| Deferred contributions (Note 5) | 24,319 | 158,646 |
| Deferred contributions related to forest management activity (Note 6) | 366,665 | 803,767 |
| Obligation for employee future benefits (Note 7) | 341,712 | 309,952 |
| | 732,696 | 1,272,365 |
| **Net assets** | | |
| Invested in capital assets | 1,733,972 | 1,606,019 |
| Restricted - Forest Renewal Fund (Note 3) | 2,400,480 | 2,302,298 |
| Unrestricted - General Fund | 3,825,595 | 3,990,500 |
| | 7,960,047 | 7,898,817 |
| | $ 10,126,060 | $ 10,706,496 |

On behalf of the Board

Director

Director

See accompanying notes to the financial statements.

## Statement of Operations

### Year Ended March 31

| | General Fund | Forest Renewal Fund | **Total 2003** | Total 2002 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Product sales | $ 24,975,415 | $ — | **$ 24,975,415** | $ 22,280,149 |
| Forest renewal activity | — | 1,466,102 | **1,466,102** | 1,281,693 |
| Standing timber sales | 438,403 | --- | **438,403** | 851,377 |
| Other | 675,196 | 59,075 | **734,271** | 666,137 |
| | 26,089,014 | 1,525,177 | **27,614,191** | 25,079,356 |
| **Expenditure** | | | | |
| Direct program costs | 19,763,002 | 1,108,062 | **20,871,064** | 17,868,599 |
| Crown timber stumpage charges | 3,828,437 | — | **3,828,437** | 4,129,054 |
| Public access road maintenance | 544,326 | — | **544,326** | 464,162 |
| Wood measurement | 119,075 | — | **119,075** | 108,386 |
| Operations planning | 84,848 | — | **84,848** | 205,142 |
| | 24,339,688 | 1,108,062 | **25,447,750** | 22,775,343 |
| **Operating income** | 1,749,326 | 417,115 | **2,166,441** | 2,304,013 |
| **Administrative and other** | | | | |
| Salaries and benefits | 965,477 | 287,479 | **1,252,956** | 1,164,519 |
| Depreciation and amortization | 495,420 | 39,107 | **534,527** | 476,920 |
| Office supplies and expenses | 116,921 | 85 | **117,006** | 103,950 |
| Office rent | 31,223 | 18,080 | **49,303** | 48,777 |
| Public relations | 45,547 | — | **45,547** | 36,719 |
| Staff travel and training | 29,121 | 6,134 | **35,255** | 71,562 |
| Directors' allowances and expenses | 28,008 | — | **28,008** | 30,050 |
| Insurance | 15,661 | 7,155 | **22,816** | 20,018 |
| Consulting, legal and miscellaneous | 23,875 | — | **23, 875** | 2,924 |
| | 1,747,171 | 358,040 | **2,105,211** | 1,976,390 |
| **Net income for the year** | $ 2,155 | $ 59,075 | **$ 61,230** | $ 327,623 |

See accompanying notes to the financial statements.

## Statement of Changes in Net Assets
Year Ended March 31

|  | Invested In Capital Assets | Restricted - Forest Renewal Fund | Unrestricted - General Fund | 2003 Total | 2002 Total |
|---|---|---|---|---|---|
| Balance, beginning of year | $ 1,606,019 | $ 2,302,298 | $ 3,990,500 | **$ 7,898,817** | $7,571,194 |
| Net income (loss) for the year | (534,527) | 98,182 | 497,575 | **61,230** | 327,623 |
| Investment in capital assets | 662,480 | --- | (662,480) | **—** | --- |
| Balance, end of year | $ 1,733,972 | $ 2,400,480 | $ 3,825,595 | **$ 7,960,047** | $7,898,817 |

See accompanying notes to the financial statements.

## Statement of Cash Flows

Year Ended March 31

| | 2003 | 2002 |
|---|---|---|
| Cash derived from (applied to) | | |
| **Operating** | | |
| Net income for the year: | | |
| General Fund | $ 2,155 | $ 250,817 |
| Forest Renewal Fund | 59,075 | 76,806 |
| Add (deduct): non-cash items | | |
| Depreciation and amortization | 534,527 | 476,920 |
| Gain on sale of capital assets | ( 20,374) | ( 22,890) |
| | 575,383 | 781,653 |
| Change in non-cash operating working capital | ( 650,152) | ( 147,280) |
| | (74,769) | 634,373 |
| **Financing** | | |
| Deferred contributions | (571,429) | (550,007) |
| Obligation for employee future benefits | 31,760 | 17,658 |
| | (539,669) | (532,349) |
| **Investing** | | |
| Acquisition of temporary investments | (1,802,453) | --- |
| Acquisition of capital assets | (662,480) | (502,046) |
| Proceeds on sale of capital assets | 20,374 | 22,939 |
| | (2,444,559) | (479,107) |
| Decrease in cash | (3,058,997) | (377,083) |
| Cash, beginning of year | 4,231,088 | 4,608,171 |
| Cash, end of year | $ 1,172,091 | $ 4,231,088 |

See accompanying notes to the financial statements.

# Notes to the Financial Statements

March 31, 2003

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## 1. Purpose of the organization

The Authority is responsible for forest management in Algonquin Provincial Park. The Authority is a Crown Agency which was established by the Ontario government on January 4, 1975 under the Algonquin Forestry Authority Act, 1974. The Authority is exempt from income taxes under the Income Tax Act.

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## 2. Significant accounting policies

### Fund accounting

The General Fund accounts for the Authority's profit generating and administrative activities. The Forest Renewal Fund accounts for the forest management activities, including silvicultural work.

### Revenue recognition

The Authority follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Revenue from product and standing timber sales and forest renewal charges are recognized when the wood is delivered. Consulting and other income is recognized as revenue when earned.

### Temporary investments

Temporary investments consist of short term treasury bills and are recorded at the lower of cost or market. The fair value of the Authority's temporary investments are estimated to approximate their carrying value due to their short term maturity.

### Inventories

Inventories are valued on the first in, first out basis at the lower of cost or net realizable value.

### Capital assets

Capital assets are recorded at cost. Depreciation is provided on a straight-line basis, using rates of 10% per annum for furniture, fixtures, technical equipment, buildings and leasehold improvements, 20% per annum for data processing equipment, and 33 1/3 % per annum for automotive equipment. The cost of bridges and access roads is amortized over the estimated number of operating seasons for which the bridges and roads are to be used, with a maximum amortization period of 10 years. Forest renewal assets are depreciated and amortized at the same rates as the assets mentioned above.

## Notes to the Financial Statements
March 31, 2003

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### 3. Forest Renewal Fund

Effective April 1, 1997, the Authority entered into a 20-year agreement with the Ministry of Natural Resources to perform forest management activities, including silvicultural work. Funding, on a cost recovery basis, for these activities is derived from stumpage charges levied under the Crown Forest Sustainability Act and grants from the Forestry Futures Fund.

The agreement also provided for a transfer of $1,500,000 from unrestricted net assets to the Forest Renewal Fund, which took place during 1998. The Authority is required to maintain, at a minimum, this amount in the Forest Renewal Fund.

---

### 4. Capital assets

| | Cost | Accumulated Depreciation | 2003 Net Book Value | 2002 Net Book Value |
|---|---|---|---|---|
| Furniture and fixtures | $ 99,399 | $ 76,573 | $ **22,826** | $ 28,094 |
| Data processing equipment | 176,563 | 115,123 | **61,440** | 84,248 |
| Buildings | 254,230 | 67,433 | **186,797** | 14,356 |
| Technical equipment | 196,287 | 190,691 | **5,596** | 8,209 |
| Automotive equipment | 311,451 | 214,483 | **96,968** | 61,882 |
| Bridges and access roads | 5,223,349 | 3,913,030 | **1,310,319** | 1,326,663 |
| Leasehold improvements | 40,459 | 36,571 | **3,888** | 5,272 |
| Forest renewal assets | 491,856 | 445,718 | **46,138** | 77,295 |
| | $ 6,793,594 | $ 5,059,622 | $ **1,733,972** | $ 1,606,019 |

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### 5. Deferred contributions

Deferred contributions represent unspent resources externally restricted for public access road maintenance received from the Ministry of Natural Resources in the current period and which relate to expenses of future periods. Changes in the deferred contributions balance are as follows:

| | **2003** | 2002 |
|---|---|---|
| Beginning balance | $ **158,646** | $ 577,911 |
| Add: amount received in the year | **410,000** | 45,905 |
| Less: amount spent on road maintenance and related costs in the year | **(544,327)** | (465,170) |
| Ending balance | $ **24,319** | $ 158,646 |

# Notes to the Financial Statements
March 31, 2003

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## 6. Deferred contributions related to forest renewal activity

Deferred contributions related to forest renewal activity represent unspent resources externally restricted by the Ministry of Natural Resources for Forest Renewal Fund activities. They consist of funds from Forest Renewal charges billed to customers and grants from the Forestry Futures Fund, received in the current period, that relate to expenses of future periods. Changes in the deferred contributions balance are as follows:

| | 2003 | 2002 |
|---|---|---|
| Beginning balance | $ **803,767** | $ 934,509 |
| Add: amount received in the year | **1,029,000** | 1,150,951 |
| Less: amount spent on forest renewal activity in the year | **(1,466,102)** | (1,281,693) |
| Ending balance | $ **366,665** | $ 803,767 |

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## 7. Employee future benefits

The Authority provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) established by the Province of Ontario, which is a multi-employer defined benefit plan providing pension benefits. This plan is accounted for as a defined contribution plan as there is insufficient information available to apply defined benefit plan accounting. The Authority's contributions related to the pension plan for the year were $50,566 (2002 - $ 46,800) and are included in salaries and benefits in the Statement of Operations.

The Authority also provides termination benefits to qualifying employees. All full-time employees qualify for a severance payment equal to one week of salary for each year of continuous service with the Authority, to a maximum of one half of the employee's annual salary. The total obligation for severance payments vested amounts to $341,712 at year-end (2002 - $309,952).

The cost of other non-pension post-retirement benefits is the responsibility of the Ontario Management Board Secretariat and accordingly is not accrued or included in the Statement of Operations.

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## 8. Remuneration of appointments

Total remuneration of the Board members of the Authority was approximately $ 7,470 during the fiscal year (2002 - $6,950).

# HYDRO ONE INC.
# MANAGEMENT'S REPORT

The accompanying Consolidated Financial Statements of Hydro One Inc. (Hydro One or the Company) are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada, and conform with accounting principles generally accepted in the United States, except as disclosed in Note 22 to the Consolidated Financial Statements. Hydro One applies accounting principles appropriate to its circumstances. The significant accounting policies followed by the Company are described in the summary of significant accounting policies contained in Note 2 to the Consolidated Financial Statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The Consolidated Financial Statements have been properly prepared within reasonable limits of materiality and in light of information available up to February 13, 2003.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Finance Committee of the Hydro One Board of Directors.

The Consolidated Financial Statements have been examined by Ernst & Young LLP, independent external auditors appointed by the Hydro One Board of Directors. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report, which appears on page 23, outlines the scope of their examination and their opinion.

The Hydro One Board of Directors, through its Audit and Finance Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Finance Committee of Hydro One met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit and Finance Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

On behalf of Hydro One Inc.'s Management:

Ken Hartwick

Tom Parkinson
President and Chief Operating Officer

K. M. Hartwick
Chief Financial Officer

## HYDRO ONE INC.
## AUDITORS' REPORT

To the Shareholder of Hydro One Inc.:

We have audited the Consolidated Balance Sheets of Hydro One Inc. (the Company) as at December 31, 2002 and December 31, 2001, and the Consolidated Statements of Operations, Retained Earnings and Cash Flows of the Company for each of the years in the three-year period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and December 31, 2001, the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2002, in accordance with Canadian generally accepted accounting principles.

The Company changed its method of accounting for goodwill and other intangible assets as described in Note 2.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants
Toronto, Canada

February 13, 2003

## HYDRO ONE INC.
## CONSOLIDATED STATEMENTS OF OPERATIONS

| *Year ended December 31 (Canadian dollars in millions)* | **2002** | **2001** | **2000** |
|---|---|---|---|
| **Revenues** | | | |
| Transmission *(Note 16)* | 1,317 | 1,259 | 1,260 |
| Distribution *(Note 16)* | 2,695 | 2,158 | 1,703 |
| Other | 32 | 49 | 32 |
| | 4,044 | 3,466 | 2,995 |
| **Costs** | | | |
| Purchased power *(Note 16)* | 1,871 | 1,267 | 859 |
| Operation, maintenance and administration *(Note 4)* | 832 | 824 | 863 |
| Depreciation and amortization *(Note 5)* | 411 | 384 | 348 |
| | 3,114 | 2,475 | 2,070 |
| **Income before financing charges and provision for payments in lieu of corporate income taxes** | 930 | 991 | 925 |
| Financing charges *(Notes 6 and 16)* | 353 | 350 | 340 |
| **Income before provision for payments in lieu of corporate income taxes** | 577 | 641 | 585 |
| Provision for payments in lieu of corporate income taxes *(Notes 7 and 16)* | 233 | 267 | 207 |
| **Net income** | 344 | 374 | 378 |
| **Basic and fully diluted earnings per common share** *(Canadian dollars) (Note 15)* | 3,258 | 3,562 | 3,182 |

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

| *Year ended December 31 (Canadian dollars in millions)* | **2002** | **2001** | **2000** |
|---|---|---|---|
| Retained earnings, January 1 | 357 | 241 | 265 |
| Net income | 344 | 374 | 378 |
| Dividends *(Note 15)* | (192) | (258) | (402) |
| Distribution to shareholder *(Note 8)* | (7) | - | - |
| Retained earnings, December 31 | 502 | 357 | 241 |

*See accompanying notes to Consolidated Financial Statements.*

# HYDRO ONE INC.
# CONSOLIDATED BALANCE SHEETS

| *December 31 (Canadian dollars in millions)* | **2002** | **2001** |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Accounts receivable (net of allowance for doubtful accounts - $16 million; 2001 - $12 million) | 659 | 538 |
| Materials and supplies | 55 | 56 |
| | 714 | 594 |
| Fixed assets *(Note 8)*: | | |
| Fixed assets in service | 13,790 | 13,335 |
| Less: accumulated depreciation | 4,859 | 4,581 |
| | 8,931 | 8,754 |
| Construction in progress | 300 | 310 |
| | 9,231 | 9,064 |
| Other long-term assets: | | |
| Deferred pension asset *(Note 10)* | 742 | 847 |
| Regulatory assets *(Note 9)* | 570 | 558 |
| Goodwill *(Note 11)* | 133 | 133 |
| Long-term accounts receivable and other assets | 28 | 22 |
| Deferred debt costs | 7 | 13 |
| | 1,480 | 1,573 |
| **Total assets** | 11,425 | 11,231 |

*See accompanying notes to Consolidated Financial Statements.*

## HYDRO ONE INC.
## CONSOLIDATED BALANCE SHEETS (continued)

| *December 31 (Canadian dollars in millions)* | 2002 | 2001 |
|---|---|---|
| **Liabilities** | | |
| Current liabilities: | | |
| Bank indebtedness | 35 | 24 |
| Accounts payable and accrued charges *(Note 16)* | 589 | 691 |
| Accrued interest | 53 | 57 |
| Short-term notes payable *(Note 12)* | 579 | 410 |
| Long-term debt payable within one year *(Note 12)* | 651 | 443 |
| | 1,907 | 1,625 |
| Long-term debt *(Note 12)* | 3,928 | 4,079 |
| Other long-term liabilities: | | |
| Regulatory liability *(Note 9)* | 742 | 847 |
| Employee future benefits other than pension *(Note 10)* | 540 | 510 |
| Environmental liabilities *(Note 14)* | 140 | 158 |
| Long-term accounts payable and accrued charges | 29 | 18 |
| | 1,451 | 1,533 |
| **Total liabilities** | 7,286 | 7,237 |
| Contingencies and commitments *(Notes 13, 18 and 19)* | | |
| **Shareholder's equity** *(Note 15)* | | |
| Preferred shares (authorized: unlimited; issued: 12,920,000) | 323 | 323 |
| Common shares (authorized: unlimited; issued: 100,000) | 3,314 | 3,314 |
| Retained earnings | 502 | 357 |
| **Total shareholder's equity** | 4,139 | 3,994 |
| **Total liabilities and shareholder's equity** | 11,425 | 11,231 |

*See accompanying notes to Consolidated Financial Statements.*

On behalf of the Board of Directors:

Glen Wright
Chairman

Eileen Mercier
Chair, Audit and Finance Committee

## HYDRO ONE INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| *Year ended December 31 (Canadian dollars in millions)* | **2002** | **2001** | **2000** |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | 344 | 374 | 378 |
| Adjustments for non-cash items: | | | |
| Depreciation and amortization (net of removal costs) | 384 | 352 | 324 |
| Retail settlement variance accounts | (37) | - | - |
| | 691 | 726 | 702 |
| Changes in non-cash balances related to operations *(Note 17)* | (199) | 188 | 23 |
| **Net cash from operations** | 492 | 914 | 725 |
| **Financing activities** | | | |
| Debt for long-term financing: | | | |
| Issued | 500 | 550 | 1,000 |
| Retired | (443) | (474) | (1,399) |
| Debt for short-term financing | 169 | 280 | 130 |
| Deferred debt costs | 6 | 1 | (12) |
| Dividends paid | (192) | (258) | (398) |
| **Net cash from (used in) financing activities** | 40 | 99 | (679) |
| **Investing activities** | | | |
| Fixed assets | (570) | (566) | (446) |
| Acquisitions of local distribution companies | - | (475) | (23) |
| Proceeds from disposition *(Note 3)* | 50 | - | - |
| Other assets | (23) | 28 | (69) |
| **Net cash used in investing activities** | (543) | (1,013) | (538) |
| **Net change in cash and cash equivalents** | (11) | - | (492) |
| Cash and cash equivalents, January 1 | (24) | (24) | 468 |
| **Cash and cash equivalents, December 31** *(Note 17)* | (35) | (24) | (24) |

*See accompanying notes to Consolidated Financial Statements.*

# HYDRO ONE INC.
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. INCORPORATION AND COMMENCEMENT OF OPERATIONS

Hydro One Inc. (Hydro One or the Company) was incorporated on December 1, 1998, under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the Province). The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario. These businesses are regulated by the Ontario Energy Board (OEB).

## 2. SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Consolidation*

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries: Hydro One Networks Inc. (Hydro One Networks), Hydro One Network Services Inc. (Hydro One Network Services), 1316664 Ontario Inc., formerly Ontario Hydro Energy Inc. (Ontario Hydro Energy), Hydro One Remote Communities Inc. (Hydro One Remote Communities), Hydro One Brampton Inc. (Hydro One Brampton), Hydro One Markets Inc., Hydro One Telecom Inc. and Hydro One Delivery Services Company Inc.

Effective January 1, 2003, Hydro One Networks and Hydro One Network Services were combined. Hydro One Network Services will be dissolved pursuant to the *Business Corporations Act* (Ontario), once all requirements are completed. In addition, the operations of the former Ontario Hydro Energy are in the process of being wound up (see Note 3).

### *Basis of Accounting*

The Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) and conform with accounting principles generally accepted in the United States (U.S. GAAP), except as disclosed in Note 22.

### *Rate-setting*

Under the *Electricity Act, 1998*, as of April 1, 1999, the businesses of Ontario Hydro were reorganized into five separate corporations, including Hydro One which, through wholly owned subsidiaries, operates as the successor to Ontario Hydro's electricity transmission, distribution and energy services businesses. This restructuring was in anticipation of Ontario's wholesale and retail electricity markets becoming open to competition, which officially occurred on May 1, 2002 (Open Access). On December 9, 2002, the Province enacted the *Electricity Pricing, Conservation and Supply Act, 2002* (Bill 210), which amended the *Electricity Act, 1998* and other statutes for the purpose of implementing the Electricity Action Plan announced by the Premier of Ontario on November 11, 2002.

Rates for the transmission business for periods preceding Open Access were set by the OEB to provide for an annual rate of return of 9.88% on the amount of common equity deemed to be allocated to this business. During this period, Hydro One did not bill customers directly for transmission services. Instead, regulated transmission revenues were collected by Ontario Power Generation Inc. (OPG) and paid to the Company pursuant to a revenue allocation agreement among the successor corporations. The revenue allocation agreement ceased upon Open Access and the Independent Electricity Market Operator (IMO) now remits payments based on the uniform transmission rates approved by the OEB for all transmitters across Ontario. Based on estimated load, these rates were also set to provide for an annual rate of return of 9.88%.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Prior to Open Access, the distribution business purchased power on a fixed-price basis from OPG and charged distribution customers a bundled rate for the generation, transmission and distribution of electricity. The bundled rates originally set by the OEB for 2000 provided for an annual rate of return of 9.88% on the amount of common equity deemed to be allocated to this business. Bundled rates remained in place until Open Access.

During 2001, the Company's wholesale cost of power was increased on two occasions. Effective June 1, 2001, the Province passed a regulation that increased to all distribution companies, including Hydro One, the wholesale cost of power supplied by OPG by 0.7 cents per kWh. The OEB approved the incorporation of this non-distribution-related increase into customers' bundled rates. The wholesale cost of power to the distribution business was further increased by 1.15 cents per kWh effective October 1, 2001 so that after such increase the Company's cost of power was consistent with the rate paid by other large distributors. On January 19, 2001, the Company applied, through Hydro One Networks, to reduce the retail portion of the distribution revenue requirement which would have been effective October 1, 2001, from approximately $742 million to $646 million to substantially mitigate the impact on Hydro One's customers of this increase in the cost of power, with this mitigation to be partially phased out over a three-year period. The Company commonly refers to this mitigation as the rate mitigation plan.

Commencing with Open Access, Hydro One purchases power from the IMO administered spot market and charges distribution customers unbundled rates, including the OEB-approved distribution rates. These distribution rates were essentially the same as the distribution rates that were incorporated into bundled rates before Open Access.

On August 30, 2002, the OEB issued a rate order establishing unbundled distribution rates; this order reflected the OEB's June 12, 2002 decision regarding the application that Hydro One Networks filed on January 19, 2001. The OEB approved an overall distribution revenue requirement (including that from retail rates, low voltage rates and miscellaneous charges) of $646 million effective October 1, 2001, $694 million effective March 1, 2002 and $742 million effective March 1, 2003. In addition, the OEB confirmed the interim approval for the recovery of approximately $8 million toward costs incurred to align our business systems and practices with the requirements of the competitive electricity market, commonly referred to as market ready costs.

Bill 210 was enacted for the purpose of implementing the Electricity Action Plan announced by the Premier of Ontario on November 11, 2002. The more significant provisions of Bill 210 for the transmission and distribution businesses are as follows:

- Energy prices for low volume and designated consumers (as defined in Bill 210) are fixed at 4.3 cents per kWh, retroactive to May 1, 2002. Most of the Company's distribution customers (who consume, in the aggregate, approximately 70% of the energy distributed) qualify for the fixed energy price. In recognition of commodity prices in excess of 4.3 cents per kWh for the period from May 1, 2002 to December 1, 2002, Bill 210 required distributors to issue a $75 refund to eligible consumers and to credit any remaining refund on future bills. The IMO has, and will continue to facilitate this price freeze through funding from Ontario Electricity Financial Corporation (OEFC), and accordingly distribution revenues and purchased power costs reported to the end of the third quarter of 2002 have been reduced by $91 million, representing an increase of $22 million in the second quarter and a decrease of $113 million in the third quarter.

- Transmission and distribution rates are capped until at least April 30, 2006. A rate application can be made to the OEB before this date with the written approval of the Minister of Energy. Any rate increases that had been approved by the OEB but not implemented by December 1, 2002 were suspended. As a result, the March 1, 2003 increase and the rate changes associated with low-voltage charges for embedded local distribution companies and direct customers cannot be implemented. The $8 million increase in distribution revenues associated with market ready costs that was approved by the OEB for the 10 months starting May 1, 2002 will remain in rates until at least April 30, 2006.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Effective December 1, 2002, the price paid by distributors to the IMO for wholesale market charges other than energy is largely fixed at the same price distributors are permitted to charge their customers. For the period May 1, 2002 to December 1, 2002, differences between the rates were accumulated in retail settlement variance accounts under the provisions of Article 490 in the OEB's *Accounting Procedures Handbook* for disposition through future offsetting variances or through approved rate adjustments.

- Bill 210 provides for the establishment or continuation of deferral accounts for certain amounts until disposition is addressed by the OEB. For Hydro One, the most significant accounts include: the retail settlement variance accounts, market ready costs, and the revenue that would have been billed had the low voltage facilities charges approved for embedded local distribution companies and direct customers been implemented. Bill 210 also provides for the continuation of a deferral account for the environmental remediation costs incurred by the distribution business in 2001 and 2002. The accounting treatment for these environmental costs was reviewed with the OEB as part of the rate mitigation plan.

The enactment of Bill 210 also effectively capped rates for both Hydro One Remote Communities, through which remote communities across northern Ontario are serviced, and Hydro One Brampton, which was acquired in 2001. All other local distribution companies that were purchased have been fully integrated within Hydro One Networks, the primary operating subsidiary. As a result of the rate cap, Hydro One Remote Communities' rate of return continues to reflect a 100% debt financed capital structure and Hydro One Brampton will not be able to implement the final rate increase to be able to achieve a 9.88% return on equity as originally proposed by the OEB.

Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Regulatory assets recognized at December 31, 2002 are disclosed in Note 9. The rate cap created by Bill 210 limits the opportunity to recover increased costs and capital spending above current rate base levels through rates during the rate cap period, which is currently until at least April 30, 2006. A rate application can be made to the OEB before the end of this period with the written approval of the Minister of Energy. Bill 210 sets out the grounds for approval and stipulates that in deciding whether to give approval, the Minister must consider the interests of consumers with respect to prices and the reliability and quality of electricity services.

Current transmission and distribution rates provide for recovery of a significant amount of the regulatory assets recorded as at December 31, 2002. Some regulatory assets have been recognized that are not incorporated in current rates. These regulatory assets primarily include the retail settlement variance accounts and the market ready costs in excess of the interim recovery of $8 million approved by the OEB. Bill 210 provides for the continuation of deferral accounts for these regulatory assets, as well as for a deferral account for the low voltage charges for direct customers and embedded local distribution companies that were approved but not implemented by December 1, 2002. In addition, the Minister of Energy has indicated, in a January 23, 2003 letter to distributors, that he will ask the OEB to complete, no later than December 31, 2003, a review of applications by distributors for recovery of the amounts that Bill 210 deems to be regulatory assets. The letter states that once the OEB completes its review and confirms the amounts to be recovered, recovery will commence no later than 2006.

Hydro One continues to believe that it is probable that the regulatory assets will be recovered through future rates, although there is more uncertainty today about full recovery than existed before Bill 210. In recognition of the increased uncertainty, the Company will not be reflecting the low voltage charges for direct and embedded local distribution companies in the results of operations or balance sheet for external financial reporting purposes. This revenue is estimated to be $26 million annually. Hydro One intends to seek recovery of the retail settlement variance accounts, the remaining market ready costs and the unrecorded low voltage charges, together with interest, through future rate applications.

The Company continually assesses the likelihood of recovery of regulatory assets. If recovery through future rates was no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment was made. If a future regulatory decision was made by the OEB or the Minister of Energy to allow recovery of the low voltage charges, Hydro One would recognize a gain in the results of operations in the period such a decision was made.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following regulatory treatments have resulted in accounting treatments differing from Canadian GAAP for enterprises operating in a non-rate-regulated environment:

- Employee future benefits other than pension are recorded using the accrual method as required by Canadian GAAP. The OEB has allowed for the recovery of past service costs, which arose on the adoption of the accrual method, in the revenue requirement on a straight-line basis over a 10-year period. As a result, in 1999 Hydro One recorded a regulatory asset in the original amount of $419 million to reflect this regulatory treatment;
- Hydro One provides for estimated future expenditures required to remediate past environmental contamination. Because such expenditures are recoverable through rates, the Company has recorded a regulatory asset in the original amount of $190 million. With the exception of that portion of the regulatory asset relating to certain distribution expenditures, this regulatory asset, including future interest accretion, is expected to be amortized over the period to 2020 on a basis substantially consistent with the pattern of actual expenditures. Under the Company's rate mitigation plan reviewed with the OEB, that portion of the regulatory asset related to the actual distribution expenditures incurred in 2001 and 2002 will be amortized to results of operations on a straight-line basis over the period 2003 to 2020, inclusive. The OEB has the discretion to examine and assess the extent and timing of recovery of Hydro One's environmental costs;
- Market ready costs have been deferred in accordance with the criteria set out in the OEB's *Electricity Distribution Rate Handbook*, the *Accounting Procedures Handbook* and in subsequent OEB guidelines. In the absence of such regulation, these costs would have been expensed when incurred under Canadian GAAP;
- Hydro One has deferred certain retail settlement variance amounts under the provisions of Article 490 in the OEB's *Accounting Procedures Handbook*;
- In accordance with the rate orders approved by the OEB, pension costs are recorded in the results of operations when employer contributions are paid to the pension fund rather than on an accrual basis. As a result, a regulatory liability has been recorded in an amount equal to the deferred pension asset; and
- The Company provides for payments in lieu of corporate income taxes relating to its regulated businesses using the taxes payable method as directed by the OEB.

### *Revenue Recognition and Allocation*

The rate orders issued by the OEB for the transmission business formed the basis of the revenue allocation agreement. In each of 1999, 2000, 2001 and until Open Access, transmission revenue was a fixed amount based on an annual revenue requirement of $1.2 billion. Commencing with Open Access, transmission revenues are collected through OEB-approved unbundled rates and are recognized as power is delivered to customers.

Prior to Open Access, distribution revenues attributable to the sale and delivery of electricity were based on OEB-approved bundled rates. Since Open Access, distribution revenues are based on OEB-approved unbundled distribution rates and are recognized as power is delivered to customers. The Company estimates the monthly revenue for the period based on wholesale power purchases because customer meters are not generally read on a monthly basis.

Distribution revenue also includes an amount relating to rate protection for rural residential and remote customers, which, prior to Open Access, was collected through the revenue allocation agreement and was recognized in accordance with the terms of the agreement. Commencing with Open Access, rural rate protection amounts are received from the IMO based on a standardized customer rate approved by the OEB. The current legislation provides rate protection for prescribed classes of rural residential and remote consumers by reducing the electricity rates that would otherwise apply.

Segment revenues for transmission, distribution and other also include revenue related to sales of services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered.

Unbilled revenue included within accounts receivable as at December 31, 2002 amounted to $248 million (2001 - $189 million). The amount of the unbilled revenue has been presented net of the remaining amounts to be credited on future bills to reflect the fixed commodity price stipulated by Bill 210 of 4.3 cents per kWh for low volume and designated customers.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

### *Corporate Income and Capital Taxes*

Under the *Electricity Act, 1998*, Hydro One is required to make payments in lieu of corporate taxes to OEFC. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario) as modified by the *Electricity Act, 1998*, and related regulations.

The Company provides for payments in lieu of corporate income taxes relating to its regulated businesses using the taxes payable method as directed by the OEB. Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers of Hydro One at that time.

### *Materials and Supplies*

Materials and supplies represent spare parts and construction material held for internal construction and maintenance of fixed assets. These assets are carried at lower of average cost or net realizable value.

### *Fixed Assets*

Fixed assets are capitalized at cost, which comprises materials, labour, engineering costs, overheads, depreciation on service equipment and the approved allowance for funds used during construction applicable to capital construction activities within regulated businesses, or interest applicable to capital construction activities within unregulated businesses.

Fixed assets in service consist of transmission, distribution, communication, administration and service assets and easements. Fixed assets also include future use assets such as land and capitalized development costs associated with deferred capital projects.

#### *Transmission*

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware and grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, such as transformers, circuit breakers and switches.

#### *Distribution*

Distribution assets comprise assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems.

#### *Communication*

Communication assets include the fibre-optic and microwave radio system, optical ground wire, towers, telephone equipment and associated buildings.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

*Administration and Service*

Administration and service assets include administrative buildings, major computer systems, personal computers, transport and work equipment, tools, vehicles and minor fixed assets.

*Easements*

Easements include statutory rights of use to transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act, 2002*, as well as other amounts incurred for easements and other access rights.

***Construction in Progress***

Financing costs are capitalized on fixed assets under construction within regulated businesses based on the allowance for funds used during construction and within unregulated businesses using an interest capitalization rate that approximates the average cost of all long-term funds borrowed. The regulated and unregulated rates were the same for the period 2000 to 2002 (2002 – 8.1%; 2001 – 8.1%; 2000 – 8.0%).

***Impairment of Fixed Assets***

In the event that facts and circumstances indicate that a fixed asset or easement may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the fixed asset or easement are compared to the asset's carrying amount to determine if a write-down is required.

***Depreciation***

The capital costs of fixed assets are depreciated on a straight-line basis, except for transport and work equipment and personal computers, which are depreciated on a declining balance basis.

Depreciation rates for the various classes of assets are based on their estimated service lives. The average estimated service lives and service life ranges of fixed assets are:

| | Estimated service lives (years) | |
|---|---|---|
| | Range | Average |
| Transmission | 12 - 100 | 57 |
| Distribution | 15 - 75 | 41 |
| Communication | 7 - 40 | 22 |
| Administration and service | 5 - 50 | 42 |
| Easements | 75 | 57 |

In accordance with group depreciation practices, the original cost of normal fixed asset retirements is charged to accumulated depreciation, with no gain or loss reflected in results of operations. Gains and losses on sales of fixed assets and losses on premature retirements are charged to results of operations as adjustments to depreciation expense. Depreciation expense also includes the costs incurred to remove fixed assets.

The estimated service lives of fixed assets are subject to periodic review. Any changes arising from such a review are implemented on a remaining service life basis from the year the changes can first be reflected in rates.

***Employee Future Benefits***

Employee future benefits provided by Hydro One include pension, group life insurance, health care, workers' compensation and long-term disability.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In accordance with the OEB's rate orders, pension costs are recorded when employer contributions are paid to the pension fund in accordance with the *Pension Benefits Act* (Ontario). As a result, a regulatory liability is recorded in an amount equal to the deferred pension asset. The deferred pension asset arises as a result of the cumulative difference between employer contributions and pension costs. Pension costs are actuarially determined using the projected benefit method prorated on service and based on assumptions that reflect management's best estimate of the effect of future events on the actuarial present value of accrued pension benefits. Pension plan assets, consisting primarily of listed equity securities as well as corporate and government debt securities, are valued using fair values. Actuarial valuations are conducted at least every three years.

Employee future benefits other than pension are recorded on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments and actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered.

Employee future benefit costs are attributed to labour and charged to operations or capitalized as part of the cost of fixed assets.

### *Long-term Incentive Plan*

The long-term incentive compensation plan established on January 1, 2000 was cancelled in 2002. This plan measured the attainment of specific targets over three consecutive years on a rolling basis, with a new tranche of three years beginning each year. The Company recognized a liability for a three-year tranche when it was probable that the targets would be met and that a liability would be incurred, generally in the third year. The final three-year tranche was initiated on January 1, 2001 and ends on December 31, 2003.

### *Goodwill*

Goodwill represents the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased.

Effective January 1, 2002, Hydro One adopted the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3062, *Goodwill and Other Intangible Assets*. Under this accounting standard, goodwill is not amortized. The carrying value of goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require, with any write-down of the carrying value of goodwill being charged against the results of operations. Prior to the current standard, goodwill impairment was assessed based on estimated future undiscounted cash flows for the business to which the goodwill relates. Under CICA 3062, goodwill impairment is assessed based on a comparison of the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill.

The transitional provisions of CICA Handbook Section 3062, as they pertain to Hydro One, require the testing of goodwill at the beginning of the period in which the accounting standard is fully adopted and the disclosure of net income for the comparative period, adjusted to exclude amortization expense related to goodwill that will no longer be amortized. The Company has determined that goodwill is not impaired. All of the goodwill is attributable to the distribution business segment.

### *Deferred Debt Costs*

Deferred debt costs include the unamortized amounts of debt discounts or premiums arising from the issuance of debt and other costs. Deferred debt costs are amortized over the period to maturity of the debt on an annuity basis.

### *Environmental Costs*

Hydro One recognizes a liability for estimated future expenditures associated with the assessment and remediation of contaminated lands and for the phase-out and destruction of polychlorinated biphenyl (PCB) contaminated mineral oil from electrical equipment, based on the net present value of these estimated future expenditures. As the Company anticipates that the related expenditures will continue to be recoverable in future rates, a regulatory asset

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

has been recognized to reflect the future recovery of these costs from customers (see Notes 9 and 14). Hydro One reviews its estimates of future environmental expenditures on an ongoing basis.

*Use of Estimates*

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the year. Actual results could differ from estimates, including changes as a result of future decisions made by the OEB or the Minister of Energy.

### 3. SALE OF COMPETITIVE RETAIL OPERATIONS

Effective April 30, 2002, the Company sold substantially all of the assets pertaining to the competitive retail operations of the former Ontario Hydro Energy for net proceeds of approximately $50 million. The sale resulted in an initial estimated gain of $2 million before provision for payments in lieu of corporate income taxes. Under the sales agreement, a final adjustment to the purchase price occurred, reducing the gain on sale before provision for payments in lieu of corporate income taxes to $1 million.

Prior to its sale, the former Ontario Hydro Energy offered fixed price electricity contracts to residential customers in Ontario. Had Hydro One continued the competitive retail business, the former Ontario Hydro Energy would have been required to purchase electricity based on the hourly spot price in Ontario's wholesale electricity market commencing with Open Access. To hedge this risk, financial electricity swap agreements were entered into under which the former Ontario Hydro Energy was to pay the counter-party a fixed price and receive the Ontario spot price. As at December 31, 2001, the fair value of the swaps was immaterial.

Because the sale of substantially all of the assets pertaining to the competitive retail operations of the former Ontario Hydro Energy included retail energy contracts, financial electricity swap agreements and gas supply contracts, Hydro One has eliminated its exposure to the inherent commodity price and volume risks associated with the competitive retail energy business. The remaining operations are being wound up.

### 4. OPERATION, MAINTENANCE AND ADMINISTRATION

In September 2002, Hydro One announced that staff levels would be reduced by approximately 140 employees, primarily from head office managerial and managerial support functions. Hydro One achieved this reduction in 2002 using voluntary and involuntary measures, including those available under collective agreements for some of the affected employees. A provision of $25 million has been charged to 2002 results of operations for the estimated future expenditures of achieving this staff reduction. A total of $2 million of this amount was charged to the provision in 2002, with the remaining amount expected to be charged in 2003 and 2004.

### 5. DEPRECIATION AND AMORTIZATION

| *Year ended December 31 (Canadian dollars in millions)* | **2002** | **2001** | **2000** |
|---|---|---|---|
| Depreciation of fixed assets in service | 327 | 302 | 280 |
| Fixed asset removal costs | 27 | 32 | 24 |
| Amortization of regulatory and other assets | 57 | 50 | 44 |
| | 411 | 384 | 348 |

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. FINANCING CHARGES

| *Year ended December 31 (Canadian dollars in millions)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| Interest on short-term notes payable | 15 | 7 | 2 |
| Interest on long-term debt payable | 366 | 371 | 377 |
| Less: Interest capitalized on construction in progress | (19) | (21) | (22) |
| Interest capitalized on regulatory assets *(Note 9)* | (6) | (2) | - |
| Interest earned on investments | (3) | (5) | (17) |
| | 353 | 350 | 340 |

### 7. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for payments in lieu of corporate income taxes (PILs) differs from the amount that would have been recorded using the combined Canadian Federal and Ontario statutory income tax rate. A reconciliation between the statutory and effective tax rates is provided as follows:

| *Year ended December 31 (Canadian dollars in millions)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| Income before provision for PILs | 577 | 641 | 585 |
| Federal and Ontario statutory income tax rate | 38.62% | 41.74% | 43.95% |
| Provision for PILs at statutory rate | 223 | 268 | 257 |
| | | | |
| Increase (decrease) resulting from: | | | |
| Net temporary differences: | | | |
| Capital cost allowance in excess of depreciation and amortization | (27) | (20) | (44) |
| Environmental expenditures | (10) | (10) | - |
| Interest capitalized for accounting purposes but deducted for tax purposes | (9) | (8) | (10) |
| Employee future benefits other than pension expense in excess of (lower than) cash payments | 11 | 6 | (4) |
| Charge for staff reduction program in excess of (lower than) cash payments | 9 | - | (23) |
| Other | 9 | 14 | 8 |
| Net temporary differences | (17) | (18) | (73) |
| Permanent differences: | | | |
| Large corporations tax | 17 | 16 | 15 |
| Other | 10 | 1 | 8 |
| Net permanent differences | 27 | 17 | 23 |
| Provision for PILs | 233 | 267 | 207 |
| Effective income tax rate | 40.38% | 41.65% | 35.38% |

Future income taxes relating to the regulated businesses have not been recorded in the accounts as they are expected to be recovered through future revenues. As at December 31, 2002, future income tax liabilities of $132 million (2001 - $105 million), based on substantively enacted income tax rates, have not been recorded.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 8. FIXED ASSETS

| *December 31 (Canadian dollars in millions)* | Fixed Assets in Service | Accumulated Depreciation | Construction in Progress | Total |
|---|---|---|---|---|
| **2002** | | | | |
| Transmission | 7,833 | 2,619 | 180 | 5,394 |
| Distribution | 4,273 | 1,572 | 50 | 2,751 |
| Communication | 531 | 237 | 33 | 327 |
| Administration and service | 663 | 378 | 37 | 322 |
| Easements | 490 | 53 | - | 437 |
| | 13,790 | 4,859 | 300 | 9,231 |
| **2001** | | | | |
| Transmission | 7,930 | 2,482 | 132 | 5,580 |
| Distribution | 4,128 | 1,484 | 70 | 2,714 |
| Communication | 443 | 214 | 93 | 322 |
| Administration and service | 608 | 354 | 15 | 269 |
| Easements | 226 | 47 | - | 179 |
| | 13,335 | 4,581 | 310 | 9,064 |

Financing costs are capitalized on fixed assets under construction, including allowance for funds used during construction on regulated assets and interest on unregulated assets, and were $19 million in 2002 (2001 - $21 million; 2000 - $22 million).

In circumstances where external customers are required to make specific contributions to fund the construction and installation of specific fixed assets, Hydro One nets the customer contributions against the acquisition cost. Cumulative customer contributions in aid of construction received by Hydro One, net of amortization, except for Hydro One Brampton, were $59 million (2001 - $45 million) for transmission and $243 million (2001 - $207 million) for distribution. Hydro One's subsidiary, Hydro One Brampton, consistent with other Ontario local distribution companies, recorded contributions in aid of construction received prior to January 1, 2000 within fixed assets on a gross basis and depreciates these amounts over the remaining service lives of the assets.

On June 27, 2002, the Province passed the *Reliable Energy and Consumer Protection Act, 2002* (the Act) that amends several statutes relating to Ontario's energy sector, including the ownership and use of corridor land. Corridor land includes land in Ontario owned by Hydro One that was used or acquired for the purposes of the transmission system, including any abutting land. Under the Act, ownership of all corridor and abutting land was transferred to the Province and Hydro One was given the right to use the land to operate the transmission system. The Company retains the obligation to incur certain ongoing expenditures related to this land, including maintenance, property taxes and any future environmental remediation work that may be required by the Province. The OEB is authorized to restrict or discontinue any use of the corridor land that interferes with the transmission system.

The transfer of the corridor land was effective December 31, 2002, resulting in ownership of transmission corridors and abutting lands with a net book value of approximately $259 million being transferred to the Province in exchange for an indefinite rights of use asset. In addition, ownership of land assets with a net book value of approximately $7 million, not currently in use, was transferred to the Province and applied as a reduction of shareholder's equity.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 9. REGULATORY ASSETS AND LIABILITY

Regulatory assets and liabilities arise as a result of the rate-making process. As described in Note 2, Hydro One has recorded the following regulatory assets and liability.

| *December 31 (Canadian dollars in millions)* | **2002** | **2001** |
|---|---|---|
| **Regulatory assets**: | | |
| Employee future benefits other than pension | 251 | 293 |
| Environmental[1] | 199 | 195 |
| Market ready | 66 | 64 |
| Retail settlement variance accounts | 37 | - |
| Other | 17 | 6 |
| Total regulatory assets | 570 | 558 |
| **Regulatory liability**: | | |
| Deferred pension | 742 | 847 |
| Total regulatory liability | 742 | 847 |

[1] This asset includes $39 million (2001 - $20 million) for the environmental remediation costs incurred by the distribution business in 2001 and 2002. These costs will be amortized to the results of operations commencing 2003.

The Company's regulatory asset in respect of employee future benefits other than pension does not earn a return. This regulatory asset which amounted to $251 million as at December 31, 2002 (2001 - $293 million) has a remaining recovery period of 6 years (2001 - 7 years). In addition, Hydro One ceased adding interest to the deferral accounts for market ready costs and the retail settlement variance accounts as at December 1, 2002 for external financial reporting purposes. Hydro One intends to seek recovery of unrecorded interest amounts relating to the period after December 1, 2002 in future rate applications.

### 10. EMPLOYEE FUTURE BENEFITS

Hydro One established a contributory defined benefit pension plan covering all regular employees of Hydro One and its subsidiaries, except Hydro One Brampton, on January 1, 2000. As well, as of January 1, 2000, Hydro One began assuming responsibility for its proportionate share of the accrued pension benefits under the Ontario Electricity Financial Corporation Pension Plan (OEFC Pension Plan), formerly the Ontario Hydro Pension and Insurance Plan. Until that date, employees and pensioners continued to participate in the OEFC Pension Plan.

Hydro One's proportionate share of assets and liabilities under the OEFC Pension Plan was recorded under the Hydro One Pension Plan as at December 31, 2000. The OEFC Pension Plan transferred assets and liabilities to the successor plans, including the pension plan of Hydro One, in 2001.

Hydro One has not been required to contribute to the pension plan because the actuarial valuation used to establish the contribution level indicated that the plan had a surplus. The Company is required to revalue the pension plan no later than December 31, 2003 (see Note 18).

Employees of Hydro One Brampton participate in the Ontario Municipal Employees Retirement System (OMERS), a multi-employer public sector pension fund, which is a defined contribution plan. As Hydro One Brampton has been under a contribution holiday since August 1998, no contributions have been made to the pension fund. Effective January 1, 2003, Hydro One Brampton commenced contributing to OMERS. Contributions are estimated to be less than $1 million annually.

Prior to January 1, 2002, Hydro One self-insured its workers' compensation liability. Effective January 1, 2002, the Company's status under the *Workplace Safety & Insurance Act, 1997* changed, and as a result Hydro One is required to pay premiums to the Workplace Safety & Insurance Board. In connection with the change in employer status, the Company settled its outstanding workers' compensation liability in 2001.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

| | Pension | | Employee Future Benefits other than Pension | |
|---|---|---|---|---|
| *Year ended December 31 (Canadian dollars in millions)* | **2002** | **2001** | **2002** | **2001** |
| **Change in accrued benefit obligation** | | | | |
| Accrued benefit obligation, January 1 | 4,166 | 3,804 | 687 | 547 |
| Past service costs from plan amendments | - | 23 | - | 3 |
| Current service cost | 65 | 64 | 20 | 17 |
| Interest cost | 266 | 258 | 43 | 37 |
| Benefits paid | (230) | (220) | (32) | (30) |
| Agreement with Inergi LP[1] | (127) | - | - | - |
| Settlement of workers' compensation liability | - | - | - | (29) |
| Acquisitions of local distribution companies | - | - | - | 10 |
| Net actuarial (gain) loss | (26) | 237 | 102 | 132 |
| Accrued benefit obligation, December 31 | 4,114 | 4,166 | 820 | 687 |
| **Change in plan assets** | | | | |
| Fair value of plan assets, January 1 | 4,120 | 4,407 | - | - |
| Actual return on plan assets | (164) | (88) | - | - |
| Benefits paid | (230) | (220) | - | - |
| Employees' contributions | 16 | 15 | - | - |
| Agreement with Inergi LP[1] | (127) | - | - | - |
| Reciprocal transfers[2] | - | 12 | - | - |
| Administrative expenses | (8) | (6) | - | - |
| Fair value of plan assets, December 31 | 3,607 | 4,120 | - | - |
| **Funded status** | | | | |
| (Unfunded benefit obligation) | (507) | (46) | (820) | (687) |
| Unamortized net actuarial losses | 1,230 | 872 | 244 | 142 |
| Unamortized past service costs | 19 | 21 | 5 | 8 |
| Deferred pension asset (accrued benefit liability) | 742 | 847 | (571) | (537) |
| Less: current portion | - | - | 31 | 27 |
| Deferred pension asset (long-term liability) | 742 | 847 | (540) | (510) |

[1] The reduction in the accrued benefit obligation and plan assets relates to employees transferred to Inergi LP effective March 1, 2002 (see Note 19). Subject to the approval by the Financial Services Commission of Ontario, the Hydro One Pension Plan is expected to transfer assets and liabilities to the Inergi Pension Plan in 2003.

[2] Reciprocal transfers reflect plan assets owing from, or to, the Ontario Power Generation Inc. Pension Plan, once employees have been hired from, or by, OPG and the Hydro One Pension Plan assumes, or is relieved of, the corresponding accrued benefit obligation.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

| | Pension | | | Employee Future Benefits Other than Pension | | |
|---|---|---|---|---|---|---|
| *Year ended December 31 (Canadian dollars in millions)* | **2002** | **2001** | **2000** | **2002** | **2001** | **2000** |
| **Components of net periodic benefit cost** | | | | | | |
| Current service cost, net of employee contributions | 49 | 49 | 39 | 20 | 17 | 15 |
| Interest cost | 266 | 258 | 246 | 43 | 37 | 35 |
| Expected return on plan assets | (285) | (312) | (316) | - | - | - |
| Amortization of net actuarial losses (gains) | 73 | 29 | - | 7 | - | (2) |
| Amortization of past service costs | 2 | 2 | - | 1 | 1 | 1 |
| Staff reduction program | - | - | - | - | - | (4) |
| Change in valuation allowance[3] | - | (421) | 31 | - | - | - |
| Net periodic benefit cost | 105[4] | (395)[4] | - | 71 | 55 | 45 |
| Capitalized as part of the cost of fixed assets | - | - | - | 28 | 22 | 21 |
| Charged to results of operations | - | - | - | 43 | 33 | 24 |
| **Effect of 1% increase in health care cost trends on:** | | | | | | |
| Accrued benefit obligation, December 31 | - | - | - | 104 | 72 | 54 |
| Net periodic benefit cost | - | - | - | 7 | 5 | 5 |
| **Effect of 1% decrease in health care cost trends on:** | | | | | | |
| Accrued benefit obligation, December 31 | - | - | - | (87) | (58) | (44) |
| Net periodic benefit cost | - | - | - | (5) | (4) | (4) |
| **Significant assumptions** | | | | | | |
| Expected rate of return on plan assets | 7.25% | 7.50% | 7.75% | - | - | - |
| Weighted-average discount rate | 6.50% | 6.50% | 6.75% | 6.67% | 6.66% | 6.88% |
| Rate of compensation scale escalation | 3.50% | 3.50% | 3.25% | 3.50% | 3.50% | 3.25% |
| Rate of cost of living increase | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| Average remaining service life of employees (years) | 12 | 12 | 14 | 12 | 12 | 14 |
| Rate of increase in long-term medical costs[5] | - | - | - | 4.50% | 4.50% | 4.50% |
| Rate of increase in dental costs[6] | - | - | - | 4.50% | 3.50% | 3.50% |

[3] The valuation allowance reduces the deferred pension asset to the maximum future benefit Hydro One expects to realize from the plan surplus. In 2001, Hydro One reversed the valuation allowance that was previously applied against the deferred pension asset.

[4] The regulatory liability was adjusted by a corresponding amount, and as a result there was no impact on operations.

[5] 14.10% grading down to 4.50% after eleven years (2001 - 10.00% grading down to 4.50% after eight years; 2000 - 9.00% grading down to 4.50% after five years).

[6] 7.30% for four years, 4.50% thereafter (2001 - 5.00% for five years, 3.50% thereafter; 2000 - 3.5% per annum).

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 11. ACQUISITIONS OF LOCAL DISTRIBUTION COMPANIES

During 2002, Hydro One did not make any significant acquisitions. However, during 2001, Hydro One acquired the outstanding shares or assets of 71 local distribution companies for net cash consideration of approximately $475 million. Net identifiable assets acquired amounted to approximately $347 million, representing assets of $416 million and liabilities of $69 million. Based on the allocation of the purchase price, the transactions resulted in goodwill of $128 million in 2001. Combined with goodwill from 2000 of $6 million, the total goodwill under the acquisition program, before amortization, was $134 million. These acquisitions were accounted for by the purchase method with the acquired companies' results of operations being included in the Consolidated Statement of Operations from the dates of acquisition.

Goodwill amortized during 2001 was $1 million. Goodwill recognized after June 30, 2001, which is not subject to amortization, was $93 million.

### 12. DEBT

| *December 31 (Canadian dollars in millions)* | **2002** | **2001** |
|---|---|---|
| Short-term notes payable | 579 | 410 |
| Long-term debt: | | |
| Notes payable to OEFC | 2,529 | 2,972 |
| 6.94% debentures due 2005 | 200 | 200 |
| 7.15% debentures due 2010 | 400 | 400 |
| 6.40% notes due 2011 | 250 | 250 |
| 5.77% notes due 2012 | 300 | - |
| 7.35% debentures due 2030 | 400 | 400 |
| 6.93% notes due 2032 | 500 | 300 |
| | 4,579 | 4,522 |
| Less: long-term debt payable within one year | 651 | 443 |
| Long-term debt | 3,928 | 4,079 |

Short-term debt represents promissory notes issued pursuant to the Company's commercial paper program. The notes are denominated in Canadian dollars with varying maturities not exceeding 365 days and with a weighted-average interest rate of 2.9% (2001 - 2.16%).

Notes payable to OEFC are denominated in Canadian dollars with various maturity dates between 2003 and 2007, and with a weighted-average interest rate of 8.2% (2001 - 8.6%) (See Note 21).

The Company also issues notes for long-term financing under the medium term note program. Hydro One is authorized to issue notes in aggregate principal amount of $2.5 billion under the program (see Note 21).

The long-term debt is subject to covenants that, among other things, limit permissible debt as a percentage of total capitalization, limit ability to sell assets and impose a negative pledge provision, subject to customary exceptions. At December 31, 2002, the Company was in compliance with these covenants.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The long-term debt is unsecured and denominated in Canadian dollars. Such debt is summarized by the number of years to maturity in the following table:

| Years to Maturity | Principal Outstanding on Notes and Debentures *(Canadian dollars in millions)* | Principal Outstanding on Notes Payable to OEFC *(Canadian dollars in millions)* | Weighted Average Interest Rate *(Percent)* |
|---|---|---|---|
| 1 year | - | 651 | 7.2 |
| 2 years | - | 682 | 6.8 |
| 3 years | 200 | 307 | 7.7 |
| 4 years | - | 589 | 10.3 |
| 5 years | - | 300 | 9.2 |
| | 200 | 2,529 | 8.1 |
| 6 – 10 years | 950 | - | 6.5 |
| Over 10 years | 900 | - | 7.1 |
| | 2,050 | 2,529 | 7.6 |

Hydro One has committed and unused revolving credit agreements with a syndicate of banks in the amount of $750 million which matures in 2003 and $250 million which matures in 2005. If used, interest on the lines of credit would apply based on Canadian benchmark rates. These credit agreements support the Company's commercial paper program.

### 13. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying amounts of all financial instruments, except long-term debt, approximate fair value. The fair value of long-term debt, based on year-end quoted market prices for the same or similar debt of the same remaining maturities, is provided in the following table:

| *December 31 (Canadian dollars in millions)* | **2002** | | **2001** | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Long-term debt | 4,579 | 4,925 | 4,522 | 4,956 |

Hydro One may enter into forward pay fixed interest rate swap agreements to hedge against the effect of future interest rate movements on long-term fixed rate borrowing requirements. When the hedged borrowing occurs, Hydro One terminates the hedge either by terminating the interest rate swap or by entering into an offsetting swap agreement. As at December 31, 2002, offsetting interest rate swap agreements were outstanding with the same counter-party having notional principal amounts of $167 million (2001 - $167 million) and a fair value of $nil (2001 - $nil). The swap agreements mature in 2011.

Financial assets create a risk that a counter-party will fail to discharge an obligation, causing a financial loss. As at December 31, 2002, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a significant amount of revenue from any single customer. As at December 31, 2002, there were no significant balances of accounts receivable due from any single customer.

The Company will continue to use derivative instruments to manage interest rate risk. Derivative financial instruments result in exposure to credit risk, since there is a risk of counter-party default. Hydro One monitors and minimizes credit risk through various techniques including dealing with highly rated counter-parties, limiting total exposure levels with individual counter-parties and entering into master agreements which enable net settlement.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 14. ENVIRONMENTAL LIABILITIES

| *December 31 (Canadian dollars in millions)* | **2002** | **2001** |
|---|---|---|
| Environmental liabilities | 160 | 174 |
| Less: current portion | (20) | (16) |
| | 140 | 158 |

Hydro One changed its accounting policy for environmental obligations on January 1, 2001 and recognized a liability for the present value of the estimated future expenditures to assess and remediate contaminated lands and to manage PCB contamination. As at January 1, 2001, the total estimated future expenditures, based on existing regulations, amounted to $95 million for land assessment and remediation and $170 million for PCB management. These amounts, expected to be incurred over the period 2001 to 2020 inclusive, were discounted using a 6.25% interest rate, resulting in an opening January 1, 2001 environmental obligation of $190 million.

During 2002, expenditures of $23 million were charged to this provision (2001 - $26 million) and $9 million (2001 $10 million) of interest was added, resulting in a December 31, 2002 balance of $160 million (December 31, 2001 - $174 million). Hydro One's estimate of future environmental expenditures did not change during 2002 or 2001.

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2002 and in total thereafter are as follows: 2003 - $25 million; 2004 - $21 million; 2005 - $19 million; 2006 - $18 million; 2007 - $17 million; and thereafter - $118 million.

There are uncertainties in estimating future environmental costs due to potential external events such as changing regulations and advances in remediation technologies. Hydro One continuously reviews factors affecting its cost estimates as well as the environmental condition of the various properties. The actual cost of investigation or remediation may differ from current estimates.

### 15. SHARE CAPITAL

***Common and Preferred Shares***

On March 31, 2000, the Company issued to the Province 12,920,000 5.5% cumulative preferred shares with a redemption value of $25.00 per share, and 99,990 common shares, bringing the total number of outstanding common shares to 100,000. The Company is authorized to issue an unlimited number of preferred and common shares.

The preferred shares are entitled to an annual cumulative dividend of $18 million, which is payable on a quarterly basis. The preferred shares are redeemable at the option of the Province at a price of $25.00 per share, representing the stated value, plus any accrued and unpaid dividends if the Province sells a number of the common shares which it owns to the public such that the Province's holdings are reduced to less than 50% of the common shares of the Company. Hydro One may elect, without condition, to pay all or part of this redemption price by issuing additional common shares to the Province. If the Province does not exercise its redemption right, the Company would have the ability to adjust the dividend on the preferred shares to produce a yield that is 0.50% less than the then-current dividend market yield for similarly rated preferred shares. The preferred shares do not carry voting rights, except in limited circumstances, and would rank in priority over the common shares upon liquidation.

***Dividends***

Common dividends are declared at the sole discretion of the Hydro One Board of Directors, and are recommended by management based on results of operations, financial condition, cash requirements and other relevant factors such as industry practice and shareholder expectations.

In 2002, preferred dividends in the amount of $18 million (2001 - $18 million) and common dividends in the amount of $174 million (2001 - $240 million) were declared.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

***Earnings per Share***

Earnings per share is calculated as net income during the year, after cumulative preferred dividends, divided by the weighted-average number of common shares outstanding during the year. Earnings per share for 2000 reflect the issuance of common shares on March 31, 2000.

### 16. RELATED PARTY TRANSACTIONS

The Province, OEFC, OPG and the IMO are related parties of Hydro One. Transactions between these parties and Hydro One were as follows:

Prior to Open Access, Hydro One received revenue for transmission services consistent with the revenue allocation agreement (see Note 2). Commencing with Open Access, Hydro One receives such revenue from customer revenue collected by the IMO. Transmission revenue for 2002 includes $1,269 million (2001 - $1,213 million; 2000 - $1,182 million) related to these services.

Prior to Open Access, Hydro One received a portion of its distribution revenue consistent with the revenue allocation agreement (see Note 2). Under this agreement, distribution revenue for 2002 includes $10 million related to these services (2001 - $52 million; 2000 - $59 million).

Prior to Open Access, Hydro One also received revenue related to the supply of electricity to 19 remote northern communities consistent with the revenue allocation agreement (see Note 2). Commencing with Open Access, Hydro One receives such revenue from customer revenue collected by the IMO. Distribution revenue for the year ended December 31, 2002 includes $21 million (2001 - $21 million; 2000 - $17 million) related to these services.

Hydro One receives amounts for rural rate protection from customer revenue collected by the IMO (see Note 2). Distribution revenue for 2002 includes $127 million (2001 - $127 million; 2000 - $127 million) related to this program, of which $3 million (2001 - $5 million; 2000 - $7 million) was paid to local distribution companies in respect of annexation agreements.

Hydro One purchased power from the IMO administered spot market (from OPG prior to Open Access) in the amount of $1,870 million in 2002 (2001 - $1,265 million; 2000 - $857 million).

Hydro One has several service level agreements with the other successor corporations, primarily OPG. These services include field and engineering, logistics, corporate, telecommunications and information technology services. Revenues related to the provision of services to the other successor corporations and operation, maintenance and administration costs related to the purchase of services from the other successor corporations are summarized in the following table:

| *Year ended December 31 (Canadian dollars in millions)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Revenues** | | | |
| Transmission | 12 | 16 | 61 |
| Distribution | 2 | 7 | 3 |
| | 14 | 23 | 64 |
| **Operation, maintenance and administration** | | | |
| Transmission | - | 3 | 15 |
| Distribution | - | 1 | 3 |
| | - | 4 | 18 |

As at December 31, 2002, long-term debt in the amount of $2,529 million (2001 - $2,972 million) was due to OEFC. Financing charges for 2002 include interest expense on this debt in the amount of $240 million (2001 - $288 million; 2000 - $330 million).

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The provision for payments in lieu of corporate income taxes was paid or payable to OEFC and dividends were paid or payable to the Province (see Note 2).

The amounts due to and from related parties as a result of the transactions referred to above are as follows:

| *December 31 (Canadian dollars in millions)* | 2002 | 2001 |
|---|---|---|
| Accounts receivable | 118 | 119 |
| Accounts payable and accrued charges | (156) | (256) |

Included in accounts payable and accrued charges are amounts owing to the IMO (OPG in 2001) in respect of power purchases of $143 million (2001 - $188 million).

### 17. CONSOLIDATED STATEMENTS OF CASH FLOWS

For the purposes of the consolidated statements of cash flows, "cash and cash equivalents" refers to the balance sheet item "bank indebtedness."

The changes in non-cash balances related to operations consist of the following:

| *Year ended December 31 (Canadian dollars in millions)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| Accounts receivable (increase) decrease | (121) | (149) | 25 |
| Materials and supplies decrease | 1 | 9 | 16 |
| Accounts payable and accrued charges (decrease) increase | (102) | 334 | (46) |
| Accrued interest (decrease) | (4) | (7) | (8) |
| Long-term accounts payable and accrued charges increase | 11 | 3 | 6 |
| Employee future benefits other than pension increase | 30 | 1 | 13 |
| Other | (14) | (3) | 17 |
| | (199) | 188 | 23 |
| **Supplementary information:** | | | |
| Interest paid | 379 | 383 | 384 |
| Payments in lieu of corporate income taxes | 294 | 241 | 213 |

### 18. CONTINGENCIES

#### *Legal Proceedings*

As a result of Hydro One's acquisition of certain transmission, distribution and energy services assets, liabilities, rights and obligations of Ontario Hydro, Hydro One has succeeded Ontario Hydro as a party in a number of legal proceedings. In 1995, Torcom Communications Inc. (Torcom) named Ontario Hydro as one of several defendants in a suit seeking damages of $150 million, as well as specific performance of certain agreements and interim injunctive relief. Torcom had sought to purchase certain telecommunication devices belonging to a bankrupt company from the court-appointed receiver. The devices had been installed on Ontario Hydro property under licence to the original owner. Torcom claims that it reached an agreement with Ontario Hydro for the continued placement of the devices on Ontario Hydro property. Torcom alleges Ontario Hydro breached this contract and interfered with its efforts to purchase the devices from the receiver. There has been little activity on the case since 1995, when Ontario Hydro served a demand to particularize the allegations against it. Ontario Hydro did not receive a reply to its demand for particulars and has not yet served a statement of defence. Hydro One believes that there are strong defences to the plaintiff's claims against Ontario Hydro and that it is unlikely that the outcome of the litigation will have a material adverse effect on its business, results of operations, financial position or prospects.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Hydro One is one of many defendants in a suit in the Superior Court of Justice commenced on October 18, 1995, asserting aboriginal title to certain land within the City of Sarnia. The plaintiff, The Chippewas of Sarnia Band, alleges that the land was not properly surrendered before a Crown Patent was issued in 1853, and therefore subsequent owners who took possession under the Crown Patent do not possess valid title. Hydro One maintains transmission line facilities on portions of the disputed land. Hydro One cannot estimate the costs that might result from an adverse decision. On April 30, 1999, summary judgment was granted, dismissing the action against Ontario Hydro and certain defendants. On May 27, 1999, the plaintiff appealed the summary judgment order to the Court of Appeal for Ontario. Further, several defendants have also appealed the summary judgment order and others, including Hydro One, have filed cross-appeals. The appeals were argued in June 2000. The Court of Appeal decision rendered December 21, 2000 dismissed the plaintiffs' appeal and granted the appeals of the other parties. The plaintiff filed a motion for leave to appeal to the Supreme Court of Canada. On November 8, 2001, the Supreme Court of Canada dismissed the leave to appeal application with costs, thereby affirming the Court of Appeal decision. On December 18, 2001, the plaintiff brought a motion for reconsideration of the leave to appeal decision and seeks a reversal of the denial of the leave application or an order for an oral hearing of the leave to appeal application. Such orders are rare and are made only in exceptional circumstances. Hydro One believes that it is unlikely that the outcome of this litigation will have a material adverse effect on its business, results of operations, financial position or prospects.

On March 29, 1999, the Whitesand First Nation Band commenced an action in the Ontario Court (General Division), naming as defendants the Province, the Attorney General of Canada, Ontario Hydro, OEFC, OPG and the Company. On May 24, 2001, the Whitesand First Nation Band issued an almost identical claim against the same parties. The reason for the second claim is the procedural defence of the Province that proper notice of the first claim was not given under the *Proceedings Against the Crown Act* (Ontario). These actions seek declaratory relief, injunctive relief and damages in an unspecified amount. The Whitesand Band alleges that since at least the first half of the twentieth century, Ontario Hydro has erected dams, generating stations and other facilities within or affecting the band's traditional lands and that those facilities have caused damage to band members and the lands, including substantial flooding and erosion. The Whitesand Band also claims treaty rights to a share of the profits arising from the activities of these Ontario Hydro facilities, an entitlement to increases in annuity payments established by treaty, and compensation for costs incurred in the course of prior negotiations of band grievances with Ontario Hydro. The Whitesand Band asserts multiple causes of action, including trespass, breach of fiduciary duty, nuisance and negligence. To date, Hydro One has not filed a defence. The Company has requested particulars of the claims, as have the other defendants. Following receipt, Hydro One will be filing a defence. The claims relating to activities of Ontario Hydro (i.e., flooding) are the matters for which OPG would have responsibility pursuant to Transfer Orders under the *Electricity Act, 1998*. Hydro One believes that it is unlikely that the outcome of this litigation will have a material adverse effect on its business, results of operations, financial position or prospects.

***Transfer of Assets***

On April 1, 1999, in connection with the acquisition of its operations, Hydro One acquired and assumed the assets, liabilities, rights and obligations of Ontario Hydro's electricity transmission, distribution and energy services businesses, except for certain transmission, distribution and other assets located on lands held for bands or bodies of Indians under the *Indian Act* (Canada). Transfer of title to these assets did not occur because authorizations originally granted by the Minister of Indian Affairs and Northern Development (Canada) for the construction and operation of these assets could not be transferred without the consent of the Minister and the relevant Indian bands or bodies or, in several cases, because the authorizations had either expired or had never been properly issued. Hydro One manages these assets, which are currently owned by OEFC.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Hydro One has commenced negotiations with the relevant Indian bands and bodies to obtain the authorizations and consents necessary to complete the transfer of these transmission, distribution and other assets. Hydro One cannot predict the aggregate amount that it may have to pay to obtain the required authorizations and consents. Hydro One expects to pay more than $850,000 per year, which was the amount previously paid to these Indian bands and bodies by Ontario Hydro and which was the total amount of allowed costs in the transitional rate orders. If, after taking all reasonable steps, Hydro One cannot otherwise obtain the authorizations and consents from the Indian bands and bodies, OEFC will continue to hold these assets for an indefinite period of time. Alternatively, Hydro One may have to relocate these assets from the Indian lands to other locations at a cost that could be substantial, or, in a limited number of cases, to abandon a line and replace it with diesel generation facilities. In such cases, Hydro One would apply to the Minister of Energy, or subsequent to April 30, 2006, the OEB to recover these costs in future rate orders.

### *Pension Risk*

Hydro One has a defined benefit registered pension plan for the majority of employees. The Company has not been required to contribute to the pension plan because the actuarial valuation used to establish the contribution level indicated that the plan had a surplus. The Company is required to revalue the pension plan no later than December 31, 2003. As a result of the decline in financial market conditions since 2000 and the decline in long-term interest rates, Hydro One currently estimates that contributions of approximately $100 million per year could be required once the next actuarial valuation is filed. The contributions would commence in 2004 and would continue each year until 2006. Subsequent to 2006, contribution levels would be based on the actuarial valuation required to be completed by December 31, 2006. The actual amount of the contributions that may be required in the future will depend on future investment returns, changes in benefits or actuarial assumptions. Such contributions will be attributed to labour and charged to results of operations or capitalized as part of the cost of fixed assets.

Similarly, the outsourcing agreement with Inergi LP (Inergi) includes a risk sharing agreement that could involve either Hydro One or Inergi making a payment related to a future imbalance between pension fund assets and liabilities for transferred staff covered by the Inergi Pension Plan. The risk sharing agreement will be settled based on data available on December 31, 2004 and will depend on economic factors and pension fund rates of return. If this risk sharing agreement had been settled on December 31, 2002, Hydro One would have been required to pay Inergi approximately $23 million. (See Note 19).

The Company intends to seek recovery of any increased ongoing expenses related to pension costs through future rate applications for the transmission and distribution businesses. Although cash contributions could be required commencing in 2004, rate applications may be deferred until at least May 1, 2006, unless the Minister of Energy approves the submission of a rate application to the OEB.

### 19. COMMITMENTS

### *Agreement with Inergi*

Effective March 1, 2002, Cap Gemini Ernst & Young Canada began providing services to Hydro One through a new entity, Inergi. As a result of this initiative, Hydro One will receive from Inergi a range of services including information technology, customer care, supply chain and certain human resources and finance services for a ten-year period. The initial service level price ranges between $90 million and $130 million per year, subject to external benchmarking every three years to ensure Hydro One is receiving a defined competitive and continuously improved price. In connection with this agreement, on March 1, 2002 the Company transferred approximately 900 employees to Inergi.

The annual commitments under the agreement in each of the five years subsequent to December 31, 2002, and in total thereafter are as follows: 2003 - $120 million; 2004 - $112 million; 2005 - $104 million, 2006 - $100 million; 2007 - $99 million; and thereafter - $384 million.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

### *Prudential Support*

Purchasers of electricity in Ontario, through the IMO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IMO could draw on these guarantees if Hydro One Networks or Hydro One Brampton fails to make a payment required by a default notice issued by the IMO. The maximum potential payment is the face value of the bank letters of credit plus the nominal amount of the parental guarantee. As at December 31, 2002, the Company provided prudential support, using a combination of bank letters of credit of $50 million (2001 - $50 million) and parental guarantees of $275 million (2001 - $275 million).

### *Retirement Compensation Arrangements*

Bank letters of credit have been issued to provide security for the Company's liability under the terms of a trust fund established pursuant to the supplementary pension plan for the employees of Hydro One and its subsidiaries. The trustee is required to draw upon the letters of credit if Hydro One is in default of its obligations under the terms of this plan. Such obligations include the requirement to provide the trustee with an annual actuarial report as well as letters of credit sufficient to secure the Company's liability under the plan, to pay benefits payable under the plan and to pay the letter of credit fee. The maximum potential payment is the face value of the bank letters of credit. As at December 31, 2002, Hydro One had bank letters of credit of $97 million (2001 - $108 million) outstanding relating to retirement compensation arrangements.

### *Operating Leases*

The future minimum lease payments under operating leases for each of the five years subsequent to December 31, 2002 and in total thereafter are as follows: 2003 - $10 million; 2004 - $8 million; 2005 - $2 million; 2006 - $1 million; 2007 - $1 million; and thereafter - $3 million.

## 20. SEGMENT REPORTING

Hydro One has three reportable segments:

- The transmission business, which comprises the core business of providing transportation and connection services, is responsible for transmitting electricity throughout the Ontario electricity grid;
- The distribution business, which comprises the core business of delivering and selling electricity to customers; and
- The "other" segment, which primarily consists of energy services, telecommunications and head office. Substantially all of the assets pertaining to the competitive retail operations of the energy services business have been sold and the remaining operations will be wound up (See Note 3).

The designation of segments is based on a combination of regulatory status and the nature of the products and services provided. The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies (see Note 2). Segment information on the above basis is as follows:

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

| *Year ended December 31 (Canadian dollars in millions)* | **Transmission** | **Distribution** | **Other** | **Consolidated** |
|---|---|---|---|---|
| **2002** | | | | |
| **Segment profit** | | | | |
| Revenues | 1,317 | 2,695 | 32 | 4,044 |
| Purchased power | - | 1,870 | 1 | 1,871 |
| Operation, maintenance and administration | 374 | 383 | 75 | 832 |
| Depreciation and amortization | 213 | 190 | 8 | 411 |
| Income (loss) before financing charges and provision for payments in lieu of corporate income taxes | 730 | 252 | (52) | 930 |
| Financing charges | | | | 353 |
| **Income before provision for payments in lieu of corporate income taxes** | | | | 577 |
| **Capital expenditures** | 260 | 286 | 24 | 570 |
| **2001** | | | | |
| **Segment profit** | | | | |
| Revenues | 1,259 | 2,158 | 49 | 3,466 |
| Purchased power | - | 1,265 | 2 | 1,267 |
| Operation, maintenance and administration | 354 | 391 | 79 | 824 |
| Depreciation and amortization | 219 | 163 | 2 | 384 |
| Income (loss) before financing charges and provision for payments in lieu of corporate income taxes | 686 | 339 | (34) | 991 |
| Financing charges | | | | 350 |
| **Income before provision for payments in lieu of corporate income taxes** | | | | 641 |
| **Capital expenditures** | 274 | 247[1] | 45 | 566 |
| **2000** | | | | |
| **Segment profit** | | | | |
| Revenues | 1,260 | 1,703 | 32 | 2,995 |
| Purchased power | - | 857 | 2 | 859 |
| Operation, maintenance and administration | 433 | 388 | 42 | 863 |
| Depreciation and amortization | 198 | 143 | 7 | 348 |
| Income (loss) before financing charges and provision for payments in lieu of corporate income taxes | 629 | 315 | (19) | 925 |
| Financing charges | | | | 340 |
| **Income before provision for payments in lieu of corporate income taxes** | | | | 585 |
| **Capital expenditures** | 280 | 152[1] | 14 | 446 |

[1] Capital expenditures exclude $468 million in 2001 and $23 million in 2000 associated with acquisitions of local distribution companies.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

| *December 31 (Canadian dollars in millions)* | 2002 | 2001 |
|---|---|---|
| **Total assets** | | |
| Transmission | 6,635 | 6,693 |
| Distribution | 4,700 | 4,416 |
| Other | 90 | 122 |
| | 11,425 | 11,231 |

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

### 21. SUBSEQUENT EVENTS

***OEFC Debt***

On January 24, 2003, Hydro One announced that OEFC intends to sell some or all its Hydro One debt in the Canadian public debt markets, commencing early in 2003. The notes payable to OEFC mature between 2003 and 2007, with a weighted-average term to maturity of approximately two years. In order to facilitate the sale, Hydro One agreed in principle with OEFC to restructure some or all of the Hydro One debt held by OEFC.

On February 13, 2003, the Board of Directors approved the exchange of up to $1.9 billion of existing debt with a weighted-average interest rate of approximately 8% for up to approximately $2.15 billion of debt with a weighted-average interest rate of approximately 4%. This debt restructuring will result in lower cash interest payments for Hydro One from 2003 through 2007 and a corresponding increase in the principal amount of the debt payable at maturity. The maturity dates will remain essentially unchanged.

For accounting purposes, the exchange will be a renegotiation of debt and no gain or loss will be recognized. The net carrying amount of the new notes (principal less unamortized discount) on the balance sheet will equal the carrying amount of the existing notes.

***Debt Issue***

On January 28, 2003, Hydro One issued notes with a principal amount of $500 million under the Company's medium term note program. The notes were issued in two tranches: a re-opening of Series 3 for $300 million at a coupon rate of 5.77% due November 15, 2012 and Series 4 for $200 million at a coupon rate of 6.35% due January 31, 2034. The total outstanding for Series 3 is now $600 million.

### 22. RECONCILIATION TO U.S. GAAP

The Consolidated Financial Statements of Hydro One have been prepared in accordance with Canadian GAAP, which conforms in most respects to U.S. GAAP. Under both Canadian GAAP and U.S. GAAP, certain of the Company's accounting policies differ from those that would be followed by enterprises operating in a non-rate-regulated environment.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The material differences between Canadian GAAP, as used in the preparation of these Consolidated Financial Statements, and U.S. GAAP are summarized below.

***Consolidated Statements of Operations***

| *Year ended December 31 (Canadian dollars in millions)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Net income** | 344 | 374 | 378 |
| Adjustments increase (decrease): | | | |
| Employee future benefits other than pension (a) | 8 | (2) | (6) |
| Staff reduction charges (c) | - | - | (60) |
| Corporate write-offs (d) | (5) | (2) | (2) |
| **Net income (U.S. GAAP)** | 347 | 370 | 310 |
| **Other comprehensive income (b)** | (421) | - | - |
| **Comprehensive income (U.S. GAAP)** | (74) | 370 | 310 |
| **Retained earnings, opening (U.S. GAAP)** | 382 | 270 | 362 |
| **Dividends** | (192) | (258) | (402) |
| **Distribution to shareholder** | (7) | - | - |
| **Retained earnings, December 31 (U.S. GAAP)** | 109 | 382 | 270 |

***Consolidated Balance Sheets***

| *December 31 (Canadian dollars in millions)* | 2002 | 2001 |
|---|---|---|
| **Assets: increase (decrease)** | | |
| Fixed assets in service (a),(d) | 8 | 19 |
| Deferred pension asset (b) | (321) | (421) |
| Regulatory assets - future tax (e) | - | 118 |
| Future tax asset (b),(e) | 163 | - |
| Other assets (b) | 19 | - |
| **Liabilities: (increase) decrease** | | |
| Accounts payable and accrued charges (d) | 8 | 8 |
| Employee future benefits other than pension (a) | 12 | (2) |
| Minimum pension liability (b) | (119) | - |
| Regulatory liability - pension (b) | - | 421 |
| Regulatory liability - future tax (b),(e) | (28) | - |
| Future tax liability (e) | (135) | (118) |
| | (393) | 25 |

### *(a) Employee Future Benefits Other than Pension*

Under U.S. GAAP, actuarial gains or losses for post-employment benefits are immediately recognized in results of operations. Under Canadian GAAP, such amounts can be deferred and amortized over the average remaining service period of active employees. Under U.S. GAAP, liabilities for other post-employment benefit costs would have been $14 million lower in 2002 (2001 - $4 million higher; 2000 - $11 million higher) due to the immediate recognition of the actuarial gain resulting from a change in the settlement rate at December 31. Of this, $8 million would have been credited to the results of operations (2001 - $2 million charged; 2000 - $6 million charged) and $6 million would have been credited to the cost of fixed assets (2001 - $2 million capitalized; 2000 - $5 million capitalized).

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

***(b) Other Comprehensive Income***

Under U.S. GAAP, if an entity's accrued pension benefit obligation, without considering future salary escalation, exceeds the fair value of pension plan assets, a minimum pension liability is to be recognized. The amount of the adjustment to record the minimum pension liability is equal to the unfunded accrued pension benefit obligation, without considering future salary escalation, plus any amounts reported as a deferred pension asset. The adjustment amount is to be recognized as an intangible asset to the extent of unrecognized past service costs. Any excess of the adjustment amount over unrecognized past service costs is reported as a separate component (reduction) of equity. For financial statement presentation, the reduction to shareholder's equity is an item of other comprehensive income (OCI). The associated tax benefit that results from considering the reduction to shareholder's equity as a temporary difference, determined on the basis of enacted income tax rates, is reflected as an adjustment to the balance sheet (see Note 22 (e)).

Under U.S. GAAP, the amount of the reported deferred pension asset would be different than that for Canadian GAAP since valuation allowances are not permissible. In 2001, Hydro One's deferred pension asset increased as a result of the reversal of previously applied valuation allowances (see Note 10). Under U.S. GAAP, the amount of the reported deferred pension asset could not be similarly increased, and as a result, would have been $321 million as at December 31, 2002 (2001 - $426 million). For purposes of the U.S. GAAP reconciliation, the adjustment amount to record the minimum pension liability is combined with the deferred pension asset.

***(c) Staff Reduction Charges***

Under Canadian GAAP, prior to January 1, 2000, costs relating to staff reduction programs were recognized at the time management approved such reductions and the costs could be reasonably estimated. Under U.S. GAAP, the cost of staff reduction programs cannot be recognized unless the program meets specific additional criteria and, for voluntary retirement programs, if the employees actually accept an offer of early retirement. During 2000, Hydro One reversed a 1999 provision for voluntary staff reduction costs in the amount of $5 million as a credit to the results of operations. Under U.S. GAAP, the original 1999 provision would not have been recorded. Instead, a provision for $55 million would have been recorded in 2000 as employees actually accepted the early retirement offer. Therefore, U.S. GAAP income would have been lower in 2000 by $60 million due to a combination of the $55 million staff reduction provision and the absence of the $5 million credit resulting from the 2000 reversal of a portion of the provision recognized under Canadian GAAP in 1999. A U.S. GAAP reconciling item is not required for the 2002 staff reduction charge because Canadian GAAP now conforms to U.S. GAAP.

***(d) Corporate Write-offs***

In 1997, Ontario Hydro recorded a $33 million expense related to the future disposal of certain field operation centres, consisting of a $25 million write-down of fixed assets and an $8 million provision for non-discretionary post-occupancy costs. Under U.S. GAAP, the fixed assets would have remained on the balance sheet as assets held for future use and would have continued to be depreciated at $2 million per year. In the absence of the 1999 write-down, the Company's 2002 U.S. GAAP depreciation expense would also have been $3 million greater due to losses from related asset sales. In addition, the provision for non-discretionary post-occupancy costs would not have been recorded.

***(e) Future Income Taxes***

For a rate-regulated enterprise, U.S. GAAP requires the reporting and display of future income tax liabilities and assets on the balance sheet. To the extent that future income taxes are expected to be included in the approved rates charged to customers in the future, the Company would record a regulatory asset. The amount of regulatory asset and the future tax liability reported for U.S. GAAP for 2002, determined on the basis of enacted income tax rates, would be $135 million (2001 - $118 million). However, in 2002, the tax benefit associated with recording a minimum pension liability would be $163 million, such that for U.S. GAAP purposes, the Company would also record a future tax asset, and subsequently a net regulatory liability for $28 million (see Note 22 (b)).

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

***(f) Derivative Instruments and Hedging Activities***

The Company's interest rate swap contracts (see Note 13) are derivative financial instruments as defined in Statement of Financial Accounting Standard (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities*. The interest rate swaps would be accounted for under SFAS 133 as cash flow hedges of forecasted borrowings. To the extent the swap contracts are effective hedges, changes in fair value would be reported in OCI and transferred to results of operations when interest on the hedged borrowings is recognized. In addition, premiums or discounts recorded when Hydro One terminates hedges related to future borrowing requirements would be reported in OCI and transferred to results of operations when interest on the hedged borrowings is recognized. The fair value of the interest rate swaps as at December 31, 2002 was $nil (December 31, 2001 - $nil) and the premium received in 2001 of $2 million was immaterial and, therefore, there would be no material effect on results of operations or financial position as a result of applying SFAS 133.

***(g) Earnings per Share***

Under U.S. GAAP, the following supplemental disclosure with respect to earnings per share is required:

| *(Canadian dollars in millions, except per share data)* | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
|---|---|---|---|
| **2002** | | | |
| Income before extraordinary items and accounting changes | 344 | | |
| Less: Preferred share dividends | 18 | | |
| Basic and fully diluted earnings per common share[2] | | | |
| Income available to common shareholder | 326 | 100,000 | 3,258 |
| **2001** | | | |
| Income before extraordinary items and accounting changes | 374 | | |
| Less: Preferred share dividends | 18 | | |
| Basic and fully diluted earnings per common share[2] | | | |
| Income available to common shareholder | 356 | 100,000 | 3,562 |
| **2000** | | | |
| Income before extraordinary items and accounting changes[1] | 252 | | |
| Less: Preferred share dividends | 13 | | |
| Basic and fully diluted earnings per common share[2] | | | |
| Income available to common shareholder | 239 | 75,000 | 3,182 |

[1] Represents the results of operations for the nine months ended December 31, 2000.

[2] For each of the years in the three-year period ended December 31, 2002, there were no issued or outstanding dilutive securities.

***(h) Statement of Cash Flows***

Under U.S. GAAP, bank indebtedness is not included in deriving cash and cash equivalents for purposes of the statement of cash flows. Bank indebtedness is classified as a financing activity.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

### *(i) Future Accounting Pronouncements*

On June 30, 2001, the Financial Accounting Standards Board (FASB) approved SFAS 143, *Accounting for Asset Retirement Obligations,* for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciated in accordance with normal depreciation policy and the liability will be increased for interest accretion, with a charge to the statement of operations, until the obligation is settled. Regulated enterprises may recognize a regulated asset or liability for differences in timing of recognition of costs for accounting and rate-making purposes. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The potential impact of adopting SFAS 143 is not yet determinable, but may be material.

On June 28, 2002, the FASB approved SFAS 146, *Accounting for Exit or Disposal Activities.* SFAS 146 addresses the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities. SFAS 146 requires that the initial measurement of a liability for costs associated with disposal activities should be recorded at fair value. In periods subsequent to initial measurement, changes to the liability should be measured using the credit-adjusted risk-free rate that was used to measure the liability initially. The cumulative effect of a change resulting from a revision to either the timing or the amount of estimated cash flows should be recognized as an adjustment to the liability in the period of the change and reported in the same line item(s) in the income statement used when the related costs were recognized initially. Changes due to the passage of time should be recognized as an increase in the carrying amount of the liability and as an expense (for example, accretion expense). The provisions of the statement will be effective for disposal activities initiated after December 31, 2002, with early application encouraged. The impact of adopting SFAS 146 is not expected to be material.

### 23. COMPARATIVE FIGURES

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2002 Consolidated Financial Statements.

## HYDRO ONE INC.
## FIVE-YEAR[1] SUMMARY OF FINANCIAL AND OPERATING STATISTICS

| *Year ended December 31 (Canadian dollars in millions)* | **2002** | **2001** | **2000** | **1999** | **1998** |
|---|---|---|---|---|---|
| **Statement of operations data** | | | | | |
| **Revenues** | 4,044 | 3,466 | 2,995 | 3,125 | 3,048 |
| **Costs** | | | | | |
| Purchased power | 1,871 | 1,267 | 859 | 939 | 1,165 |
| Operation, maintenance and administration[2] | 832 | 824 | 863 | 863 | 723 |
| Depreciation and amortization | 411 | 384 | 348 | 342 | 300 |
| Transitional cost adjustment[3] | - | - | - | 55 | - |
| Provincial debt guarantee fee[4] | - | - | - | 8 | 31 |
| Deferred pension asset[5] | - | - | - | - | (204) |
| | 3,114 | 2,475 | 2,070 | 2,207 | 2,015 |
| **Other income** | | | | | |
| Gain on sale of investment[6] | - | - | - | 32 | - |
| **Income before financing charges and provision for payments in lieu of corporate income taxes** | 930 | 991 | 925 | 950 | 1,033 |
| Financing charges | 353 | 350 | 340 | 381 | 559 |
| **Income before provision for payments in lieu of corporate income taxes** | 577 | 641 | 585 | 569 | 474 |
| Provision for payments in lieu of corporate income taxes[7] | 233 | 267 | 207 | 194 | - |
| **Net income** | 344 | 374 | 378 | 375 | 474 |
| **Basic and fully diluted earnings per common share** *(Canadian dollars)* | 3,258 | 3,562 | 3,182 | - | - |

[1] The results of operations and financial positions prior to April 1, 1999 may have been different if Hydro One had been a stand-alone corporation with its own management and capital structure, rather than a business unit of Ontario Hydro.

[2] Operation, maintenance and administration costs for 2002 included a charge of $25 million for a staff reduction program and for 1999 included a net charge of $24 million for a staff reduction program and the reversal of certain provisions.

[3] The transitional cost adjustment was a one-time charge that represented the difference between allowed costs specified in the OEB rate orders and costs incurred by Ontario Hydro during the first three months in 1999 that were allowed under the *Power Corporation Act*.

[4] The provincial debt guarantee fee was an annual fee equal to one-half of one percent (0.5%) of the total debt guaranteed by the Province outstanding as of the preceding December 31. This fee was eliminated effective April 1, 1999.

[5] The provisions of the *Electricity Act, 1998*, allow Hydro One to reduce employer contributions to the pension plan to the extent permitted under the *Pension Benefits Act* (Ontario), effective April 1, 1998. As a result, the deferred pension asset was increased by $204 million with a corresponding credit to 1998 operations.

[6] On September 15, 1999, Hydro One sold its 25% equity interest in Ontario Quinta A.V.V., resulting in a gain on sale.

[7] As of April 1, 1999, Hydro One is required to make payments in lieu of corporate taxes (see Notes 2 and 7).

## HYDRO ONE INC.
## FIVE-YEAR[1] SUMMARY OF FINANCIAL AND OPERATING STATISTICS (continued)

| *Year ended December 31 (Canadian dollars in millions)* | **2002** | **2001** | **2000** | **1999** | **1998** |
|---|---|---|---|---|---|
| **Financial position data** | | | | | |
| Total assets | 11,425 | 11,231 | 9,997 | 10,090 | 9,435 |
| **Other financial data** | | | | | |
| EBITDA[8] | 1,341 | 1,375 | 1,273 | 1,292 | 1,333 |
| Capital expenditures: | | | | | |
| Transmission | 260 | 274 | 280 | 327 | 171 |
| Distribution[9] | 286 | 247 | 152 | 186 | 188 |
| Other | 24 | 45 | 14 | 16 | 35 |
| **Ratios** | | | | | |
| Net asset coverage on long-term debt[10] | 1.90 | 1.88 | 1.90 | 1.83 | 1.43 |
| Earnings coverage ratio[11] | 2.35 | 2.53 | 2.37 | 2.19 | 1.82 |
| **U.S. GAAP** (Canadian dollars) | | | | | |
| Net income | 347 | 370 | 310 | 404 | 446 |
| Comprehensive income[12] | (74) | 370 | 310 | 404 | 446 |
| Retained earnings[12] | 109 | 382 | 270 | 362 | - |
| Earnings coverage ratio[11] | 2.36 | 2.52 | 2.20 | 2.26 | 1.77 |
| **Operating statistics** | | | | | |
| Transmission: | | | | | |
| Units transmitted (TWh) | 153.2 | 146.9 | 146.9 | 144.1 | 143.0 |
| System peak demand (MW) | 25,629 | 25,269 | 23,428 | 23,435 | 22,443 |
| Total transmission lines (circuit-kilometres) | 28,492 | 28,387 | 28,490 | 28,889 | 29,066 |
| Distribution: | | | | | |
| Units distributed (TWh) | 27.1 | 21.3 | 17.6 | 18.1 | 18.3 |
| Total distribution lines (circuit-kilometres) | 122,830 | 122,399 | 113,880 | 113,400 | 116,947 |
| Customers[13] | 1,219,614 | 1,193,089 | 957,474 | 933,990 | 977,835 |
| Total regular employees[14] | 3,933 | 4,815 | 4,468 | 5,632 | 5,221 |

[8] EBITDA represents income before financing charges, provision for payments in lieu of corporate income taxes, depreciation and amortization and does not include financing income.

[9] Capital expenditures exclude $468 million in 2001 and $23 million in 2000 associated with acquisitions of local distribution companies.

[10] The net asset coverage on long-term debt ratio is calculated as total assets minus total liabilities excluding long-term debt (including current portion) divided by long-term debt (including current portion).

[11] The earnings coverage ratio has been calculated as the sum of net income, gross interest expense (which excludes capitalized interest) and provision for payments in lieu of corporate income taxes divided by the sum of gross interest plus cumulative preferred dividends. On March 31, 2000, preferred dividends of $13 million were declared in respect of the nine months ended December 31, 1999. As a result, the earnings coverage ratio would have been 2.30 in 2000 (U.S. GAAP - 2.13) and 2.26 in 1999 (U.S. GAAP - 2.33) on the basis of dividends declared.

[12] Results for 2002 under U.S. GAAP reflect a minimum pension liability (see Note 22).

[13] As of April 1, 1999, Hydro One served approximately 934,000 retail customers. The reduction over 1998 was a result of statutory annexations under the *Power Corporation Act* of a small portion of facilities by several local distribution companies. Subsequent increases primarily reflect the acquisitions of local distribution companies.

[14] On March 1, 2002, approximately 770 regular employees were transferred to Inergi LP (see Note 19).

## Liquor Control Board of Ontario

# Responsibility for Financial Reporting

The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 13, 2003.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, meets periodically with management, the internal auditors and the Provincial Auditor to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on page 54, outlines the scope of the Auditor's examination and opinion.

On behalf of management:

J. C. Browning

J. Alex Browning
*Senior Vice President, Finance & Administration, and Chief Financial Officer*
*June 13, 2003*

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

***Auditor's Report***

To the Liquor Control Board of Ontario
and to the Minister of Consumer and Business Services

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2003 and the statements of income and retained income and of cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2003, the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Erik Peters

Toronto, Ontario
June 13, 2003

Erik Peters, FCA
Provincial Auditor

## LIQUOR CONTROL BOARD OF ONTARIO

### Balance Sheet
### As at March 31, 2003

| | 2003<br>($ 000) | 2002<br>($ 000) |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | 46,385 | 80,108 |
| Accounts receivable, trade and others | 22,365 | 19,298 |
| Inventories | 247,523 | 226,285 |
| Prepaid expenses | 6,619 | 8,337 |
| | 322,892 | 334,028 |
| **Long-term** | | |
| Capital assets (Note 5) | 225,045 | 197,895 |
| | 547,937 | 531,923 |
| **LIABILITIES AND RETAINED INCOME** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | 262,140 | 216,518 |
| Current portion of accrued benefit obligation (Note 3) | 4,508 | 3,525 |
| | 266,648 | 220,043 |
| **Long-term** | | |
| Accrued benefit obligation (Note 3) | 32,891 | 28,024 |
| **Retained income** | 248,398 | 283,856 |
| | 547,937 | 531,923 |

**Commitments and Contingencies** (Notes 6 and 8)

See accompanying notes to financial statements.

Approved by:

Chair and Chief Executive Officer

Board Member; Chair, Audit and Governance Review Committee

## LIQUOR CONTROL BOARD OF ONTARIO

### Statement of Income and Retained Income
### Year Ended March 31, 2003

| | 2003<br>($ 000) | 2002<br>($ 000) |
|---|---|---|
| **Sales and other income** | 3,119,240 | 2,939,563 |
| **Cost and expenses** | | |
| Cost of sales | 1,653,739 | 1,529,018 |
| Retail stores and marketing | 360,448 | 344,759 |
| Warehousing and distribution | 64,431 | 54,137 |
| Administration | 53,478 | 46,477 |
| Amortization | 47,602 | 44,260 |
| | 2,179,698 | 2,018,651 |
| **Net income for the year** | 939,542 | 920,912 |
| **Retained income, beginning of year** | 283,856 | 267,944 |
| | 1,223,398 | 1,188,856 |
| **Deduct** | | |
| Dividend paid to Province of Ontario | 970,000 | 901,000 |
| Payment to municipalities on behalf of the Province of Ontario (Note 9) | 5,000 | 4,000 |
| | 975,000 | 905,000 |
| **Retained income, end of year** | 248,398 | 283,856 |

See accompanying notes to financial statements.

## LIQUOR CONTROL BOARD OF ONTARIO

### Statement of Cash Flows
### Year Ended March 31, 2003

| | 2003<br>($ 000) | 2002<br>($ 000) |
|---|---|---|
| **Cash provided from operations** | | |
| Net income | 939,542 | 920,912 |
| Amortization | 47,602 | 44,260 |
| Loss (Gain) on sale of capital assets | (1,306) | 200 |
| | 985,838 | 965,372 |
| Increase in non-cash items | | |
| Working capital | 23,035 | 26,116 |
| Accrued benefit obligation | 5,850 | 1,018 |
| | 1,014,723 | 992,506 |
| **Cash used for investment activities** | | |
| Purchase of capital assets | (75,062) | (55,735) |
| Proceeds from sale of capital assets | 1,616 | 376 |
| | (73,446) | (55,359) |
| **Cash used for financing activities** | | |
| Dividend paid to Province of Ontario | (970,000) | (901,000) |
| Payment to municipalities on behalf of the Province of Ontario | (5,000) | (4,000) |
| | (975,000) | (905,000) |
| **Increase (decrease) in cash during the year** | (33,723) | 32,147 |
| **Cash and cash equivalents, beginning of year** | 80,108 | 47,961 |
| **Cash and cash equivalents, end of year** | 46,385 | 80,108 |

See accompanying notes to financial statements.

## LIQUOR CONTROL BOARD OF ONTARIO

### Notes to Financial Statements
### March 31, 2003

---

### 1. NATURE OF THE CORPORATION

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Accounting

The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

#### (b) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

#### (c) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20 years |
| Furniture and Fixtures | 5 years |
| Leasehold Improvements | 5 years |
| Computer Equipment | 3 years |

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

#### (d) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### (e) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

## LIQUOR CONTROL BOARD OF ONTARIO

**Notes to Financial Statements**
**March 31, 2003**

### 3. ACCRUED BENEFIT OBLIGATION

The accrued benefit obligation includes accruals for employee termination payments and unfunded workers compensation obligation.

In fiscal 2003, the cost of these employee future benefits was $8.7 million (2002 – $5.8 million) and is included in Cost and expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2003 is $37.4 million (2002 – $31.5 million) of which $4.5 million (2002 – $3.5 million) is classified as a current liability.

The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the Statement of Income and Retained Income.

### 4. PENSION PLAN

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are multi-employer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution pension plans as the Board has insufficient information to apply defined benefit plan accounting. The expense represents the Board's contributions to the plans during the year.

In fiscal 2003, the expense was $11.1 million (2002 – $10.1 million) and is included in Cost and expenses in the Statement of Income and Retained Income.

### 5. CAPITAL ASSETS

| | 2003<br>($ 000) | | | 2002<br>($ 000) |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Land | 13,584 | — | 13,584 | 13,737 |
| Buildings | 294,354 | 201,186 | 93,168 | 92,704 |
| Furniture and fixtures | 55,139 | 32,600 | 22,539 | 12,628 |
| Leasehold improvements | 156,782 | 94,513 | 62,269 | 45,097 |
| Computer equipment | 120,895 | 87,410 | 33,485 | 33,729 |
| | 640,754 | 415,709 | 225,045 | 197,895 |

## LIQUOR CONTROL BOARD OF ONTARIO

**Notes to Financial Statements**
**March 31, 2003**

### 6. LEASE COMMITMENTS

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

| | ($ 000) |
|---|---|
| 2004 | 32,411 |
| 2005 | 30,739 |
| 2006 | 28,487 |
| 2007 | 26,518 |
| 2008 | 23,982 |
| Thereafter | 181,468 |
| | 323,605 |

### 7. HEDGING

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 2003 the Board had $4,448,340 (2002 – $3,702,693) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

### 8. CONTINGENCIES

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

### 9. PAYMENT TO MUNICIPALITIES

During fiscal 2003, in accordance with Section 5(2) of the *Liquor Control Act, 1990*, the Board was directed by Cabinet to contribute $5 million (2002 - $4 million) to assist municipalities with their glass recycling costs. Cabinet further directed the Board to contribute $5 million annually in each of the next three years.

## Liquor Control Board of Ontario

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| ASHDOWN | TONY | Director, Human Resources Development | $117,228.46 | $276.81 |
| BARTUCCI | RON | Director, Traffic, Customs & Excise | $108,091.22 | $263.29 |
| BONIC | JACQUELINE | VP, Store Dev. & Real Estate | $146,099.62 | $335.76 |
| BOURRE | DON | Director, Eastern Region | $122,698.27 | $1,151.89 |
| BRANDT | ANDREW | Chair & CEO | $125,035.77 | $5,000.00 |
| BROWNING | ALEX | Sr. VP, Finance & Administration | $166,485.04 | $9,949.79 |
| BUCK | PETER | Director, Human Resources Services | $138,052.86 | $317.31 |
| BURNS | TAMARA | VP, Merchandising | $146,895.76 | $342.84 |
| CARDINAL | NANCY | VP, Marketing Communications | $147,099.62 | $335.76 |
| CHU | HANG-SUN | Sr. Systems Analyst | $103,481.51 | $211.11 |
| CLEVELY | R. | Director, Central Region | $100,957.77 | $1,186.06 |
| COLLINS | ROBERT | Director, Customer Insights | $122,462.43 | $282.19 |
| DAVIO | R. | Manager, Pricing Administration | $102,581.62 | $259.02 |
| DOWNEY | ROBERT | Sr. VP, Sales & Marketing | $160,028.42 | $9,937.99 |
| DUTTON | ROB | Dir., Fin. Planning & Economic Dev. | $146,099.62 | $335.76 |
| ECKER | ROY | VP, Operations | $158,171.79 | $4,445.36 |
| FARRELL | MICHAEL | Director, Wholesale Customer Mgmt. | $135,335.86 | $317.31 |
| FISHER | R. G. | Director, Western Region | $143,474.26 | $339.51 |
| FITZPATRICK | MARY | Sr. VP, Gen. Counsel & Corp. Secretary | $166,485.04 | $9,949.79 |
| GEE | LARRY | Executive VP & Chief Operating Officer | $218,286.39 | $128.28 |
| GRANT | KEITH | Director, Special Projects | $101,198.01 | $275.00 |
| GREEN | MICHAEL | Solicitor | $131,913.93 | $317.31 |
| HOLLOWAY | BRIAN | Director, Application Systems | $133,158.93 | $317.31 |
| KANE | MURRAY | Sr. VP, Human Resources | $166,485.04 | $9,949.79 |
| KELLY | HUGH | Sr. VP, Information Technology | $166,485.04 | $9,949.79 |
| KENNEDY | WILLIAM | Exec. Director, Corp. Communications | $146,099.62 | $335.76 |
| KER | J. G. | Executive Director, Corporate Policy | $142,186.58 | $323.31 |
| LAMANTIA | M. | Sr. Systems Analyst | $105,045.82 | $211.11 |
| LANDY | RANDI | Category Director, Beers & Sp. Markets | $114,920.26 | $283.23 |
| LYONS | CAROL | Controller | $135,335.86 | $317.31 |
| MACGREGOR | MARALISA | Director, Supply Chain | $147,235.11 | $313.95 |
| MARSHALL | DAVE | Director, Northern Region | $138,052.86 | $1,164.31 |
| MARTIN | JOHN | Sr. VP, Logistics | $161,315.81 | $9,949.79 |
| MCGRATH | BRUCE | Sr. Systems Analyst | $105,465.33 | $211.11 |
| MCNEE | J. (ANDREW) | Solicitor | $122,266.06 | $303.72 |
| MISETICH | DAVID | Inventory Manager | $107,736.77 | $248.22 |
| MOGK-EDWARDS | SHARI | Category Director, Spirits | $114,920.26 | $283.23 |
| MURPHY | PETER | Director, Conventional Warehousing | $135,335.86 | $317.31 |
| MUTLAK | TERESA | Dir., Financial Reporting & Technology | $105,905.26 | $265.53 |
| O'BRIEN | BARRY | Director, Corporate Affairs | $120,861.64 | $277.71 |
| PETER | N. ROBERT | President and C.O.O. | $211,172.13 | $10,911.01 |
| PIZZOLATO | BRUCE | Director, Durham Facility | $115,251.05 | $291.60 |
| RAMSAY | GARY | Director, Application Systems | $135,335.86 | $317.31 |
| RENTON | ALISON | Solicitor | $136,672.20 | $316.95 |
| RUSSELL | KEVIN | Manager, Retail Planning | $100,429.75 | $237.54 |
| SALVISBURG | A. | Director, Customer Service & Admin. | $132,957.06 | $507.95 |
| SCHMIDT | LINDA | Inventory Manager | $102,331.69 | $250.74 |
| SHERWOOD | GARFIELD | Sr. VP, Retail | $166,485.04 | $5,163.25 |
| SOLEAS | GEORGE | VP, Quality Assurance | $139,704.84 | $326.28 |

**Liquor Control Board of Ontario**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| STANLEY | THOMAS | Director, I.T. Infrastructure | $101,002.53 | $253.03 |
| STEPHENS | MIKE | District Manager | $103,616.10 | $323.37 |
| SUTTON | SHELLEY | Director, Strategic Planning | $120,602.49 | $277.71 |
| TUGHAN | WILLIAM | Director, Loss Prevention & Security | $118,483.64 | $277.71 |
| TURNER | JIM | Director, Western Region | $122,698.27 | $435.89 |
| VAN KESSEL | RENEE | Solicitor | $126,743.54 | $314.79 |
| WALKER | R. LILA | Director, Compensation & HR Admin. | $118,291.17 | $276.81 |
| WHITELAW | RICHARD | Treasurer | $126,204.98 | $308.37 |
| WILSON | T. J. | VP, Vintages | $143,224.62 | $335.76 |
| YAZEJIAN | LEVON | Director, General Audit | $118,955.87 | $277.71 |
| ZACHAR | WAYNE | Director, Employee Relations | $138,052.86 | $317.31 |

# THE NIAGARA PARKS COMMISSION

## MANAGEMENT REPORT
## OCTOBER 31, 2002

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The accompanying financial statements are the responsibility of the management of The Niagara Parks Commission.

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting policies. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The Commission maintains a system of internal accounting and administrative control that is designed to provide reasonable assurance the financial information is relevant, reliable and accurate and that the Commission's assets are properly accounted for and adequately safeguarded.

The appointed Commission is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

The Commission meets periodically with management to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and to satisfy itself that each party is properly discharging its responsibilities.

The financial statements have been audited by Crawford, Smith and Swallow Chartered Accountants LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Commission, the Minister of Tourism and Recreation and the Provincial Auditor. Crawford, Smith and Swallow Chartered Accountants LLP has full and free access to the Commission.

John A. M. Kernahan
General Manager
January 24, 2003

N McDougall

Neil McDougall, CMA
Senior Director, Finance and
Information Technology
January 24, 2003

## AUDITORS' REPORT

To The Niagara Parks Commission,
the Minister of Tourism and Recreation
and the Provincial Auditor

Pursuant to the Niagara Parks Act which provides that The Niagara Parks Commission, an agency of the Crown, shall be audited by the Provincial Auditor or an auditor designated by the Lieutenant Governor in Council, we have audited the balance sheet of The Niagara Parks Commission as at October 31, 2002 and the statements of operations, equity and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at October 31, 2002, the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Crawford, Smith & Swallow

Niagara Falls, Ontario
January 24, 2003

CRAWFORD, SMITH AND SWALLOW
CHARTERED ACCOUNTANTS LLP

# THE NIAGARA PARKS COMMISSION

## STATEMENT 1

## BALANCE SHEET

October 31, 2002

| **Assets** | 2002<br>$ | 2001<br>$ |
|---|---|---|
| **Current Assets** | | |
| Cash | 1,263,208 | 1,493,614 |
| Accounts receivable | | |
| Land rent | 97,469 | 2,350,056 |
| Sundry | 3,101,551 | 1,779,690 |
| Inventories | | |
| Saleable merchandise | 4,239,668 | 3,568,438 |
| Maintenance and other supplies | 1,328,588 | 1,203,010 |
| Prepaid expenses | 290,449 | 121,029 |
| | 10,320,933 | 10,515,837 |
| **Fixed Assets** - note 2 | 137,107,798 | 136,076,447 |
| | **147,428,731** | **146,592,284** |

## Liabilities and Equity

| | 2002 | 2001 |
|---|---|---|
| **Current Liabilities** | | |
| Bank loan | 6,000,000 | 3,000,000 |
| Accounts payable | 5,267,720 | 9,304,506 |
| Accrued payroll | 1,366,856 | 1,040,917 |
| Mortgage payable | – | 300,000 |
| | 12,634,576 | 13,645,423 |
| **Post-Employment Benefits** - note 3 | 2,779,523 | 2,571,209 |
| **Commitments** - note 4 | | |
| **Contingencies** - note 5 | | |
| **Equity** – Statement 2 | 132,014,632 | 130,375,652 |
| | **147,428,731** | **146,592,284** |

Signed on behalf of the Commission:

Chairman

Vice-chairman

see accompanying notes

# THE NIAGARA PARKS COMMISSION

## STATEMENT 2

## STATEMENT OF EQUITY

for the year ended October 31, 2002

| | 2002<br>$ | 2001<br>$ |
|---|---|---|
| **Equity, Beginning of Year** | 130,375,652 | 129,273,879 |
| **Net Income for the Year** - Statement 3 | 1,638,980 | 3,417,752 |
| **Change In Accounting Policy** | – | (2,315,979) |
| **Equity, End of Year** | **132,014,632** | **130,375,652** |

see accompanying notes

# THE NIAGARA PARKS COMMISSION

## STATEMENT 3

## STATEMENT OF OPERATIONS

for the year ended October 31, 2002

| | 2002<br>$ | 2001<br>$ |
|---|---|---|
| **Income** | | |
| Gift shops, restaurants and attractions - Schedule 1 | 74,363,869 | 68,137,118 |
| Land rent | 5,416,415 | 5,299,469 |
| Commissions, rentals and fees | 2,891,000 | 2,739,471 |
| Premium on United States funds – net | 691,292 | 631,338 |
| Interest | 63,868 | 135,938 |
| Gain on disposal of fixed assets – net | 175,816 | 56,384 |
| Sundry income | 16,945 | 44,718 |
| | 83,619,205 | 77,044,436 |
| **Expenses** | | |
| Gift shops, restaurants and attractions - Schedule 1 | | |
| Cost of goods sold | 15,614,741 | 15,539,056 |
| Operating expenses | 34,403,537 | 27,525,807 |
| Depreciation | 3,323,344 | 2,421,883 |
| Maintenance | 16,977,710 | 16,486,896 |
| Administrative and general | 5,166,057 | 5,025,846 |
| Marketing and promotion | 2,622,706 | 2,904,238 |
| Customer service | 383,027 | 443,773 |
| Loan interest | 543,255 | 314,014 |
| | 79,034,377 | 70,661,513 |
| **Net Income for the Year before Depreciation of Non-Income Producing Assets** | 4,584,828 | 6,382,923 |
| **Depreciation of Non-Income Producing Assets** | 2,945,848 | 2,965,171 |
| **Net Income for the Year** | **1,638,980** | **3,417,752** |

see accompanying notes

# THE NIAGARA PARKS COMMISSION

## STATEMENT 4

## STATEMENT OF CASH FLOWS

for the year ended October 31, 2002

| | 2002<br>$ | 2001<br>$ |
|---|---|---|
| **Operating Activities** | | |
| Net income for the year | 1,638,980 | 3,417,752 |
| Charges against income not requiring an outlay of funds | | |
| - depreciation | 6,478,205 | 5,494,475 |
| - gain on disposal of fixed assets – net | (175,816) | (15,318) |
| | 7,941,369 | 8,896,909 |
| Net change in non-cash working capital balances related to operations - note 6 | (746,349) | 2,905,490 |
| Funds provided by operating activities | 7,195,020 | 11,802,399 |
| **Investing Activities** | | |
| Fixed asset acquisitions | (7,527,979) | (20,140,315) |
| Proceeds on sale of fixed assets | 194,239 | 279,919 |
| Funds used by investing activities | (7,333,740) | (19,860,396) |
| **Financing Activities** | | |
| Repayment of long-term debt | (300,000) | (300,000) |
| Increase in post-employment benefits | 208,314 | 255,230 |
| Funds used by financing activities | (91,686) | (44,770) |
| **Decrease in Cash Position** | (230,406) | (8,102,767) |
| **Cash Position, Beginning of Year** | 1,493,614 | 9,596,381 |
| **Cash Position, End of Year** | **1,263,208** | **1,493,614** |

See accompanying notes

# THE NIAGARA PARKS COMMISSION

## SCHEDULE 1

## SCHEDULE OF OPERATIONS

## GIFT SHOPS, RESTAURANTS AND ATTRACTIONS

for the year ended October 31, 2002

| | 2002<br>$ | 2001<br>$ |
|---|---|---|
| **Income** | | |
| Souvenirs, china and post cards | 23,382,307 | 25,433,308 |
| Food and refreshments | 16,437,848 | 15,148,458 |
| Beer, liquor and wine | 2,325,150 | 1,680,357 |
| Confectionery | 3,116,103 | 3,145,907 |
| Fares and admission | 26,499,054 | 21,404,860 |
| Rentals | 1,023,382 | 371,778 |
| Sundry | 1,580,025 | 952,450 |
| | 74,363,869 | 68,137,118 |
| **Cost of Goods Sold** | | |
| Souvenirs, china and post cards | 8,658,055 | 9,533,463 |
| Food and refreshments | 4,461,995 | 4,022,544 |
| Beer, liquor and wine | 661,577 | 454,663 |
| Confectionery | 1,217,187 | 1,239,169 |
| Sundry | 615,927 | 289,217 |
| | 15,614,741 | 15,539,056 |
| **Gross Profit** | 58,749,128 | 52,598,062 |
| **Operating Expenses** | | |
| Salaries and wages | 14,837,150 | 12,699,555 |
| Employee benefits | 2,629,630 | 2,348,901 |
| Advertising | 1,387,406 | 767,914 |
| Fuel, power, water and laundry | 1,373,927 | 1,171,656 |
| General | 4,467,962 | 3,577,535 |
| Maintenance of buildings, equipment and vehicles | 2,645,265 | 2,511,433 |
| Maintenance of grounds | 4,693,339 | 2,402,632 |
| Grants in lieu of municipal taxes | 823,336 | 808,167 |
| Distribution Centre expense | 1,545,522 | 1,238,014 |
| | 34,403,537 | 27,525,807 |
| **Net Income before Depreciation** | 24,345,591 | 25,072,255 |
| **Depreciation of Income Producing Assets** | 3,323,344 | 2,421,883 |
| **Net Income Exclusive of any Portion of the Administrative Overhead of the Commission** | **21,022,247** | **22,650,372** |

See accompanying notes

# THE NIAGARA PARKS COMMISSION

## NOTES TO FINANCIAL STATEMENTS

for the year ended October 31, 2002

### 1. Significant Accounting Policies

Basis of accounting

The financial statements of the Niagara Parks Commission (the "Commission") are the representations of management prepared in accordance with Canadian generally accepted accounting principles, consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement in the light of available information. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Inventories

Inventories of saleable merchandise are valued at lower of cost (first-in, first-out) and net realizable value.

Fixed assets

All fixed assets are recorded at cost. Depreciation has been recorded using the straight-line method, with rates from 2.5 to 20 per cent for buildings, roadways and structures, 10 to 25 per cent for equipment and furnishings and from 8 to 40 per cent for vehicles.

### 2. Fixed Assets

| | Cost<br>$ | Accumulated Depreciation<br>$ | 2002<br>$ | 2001<br>$ |
|---|---|---|---|---|
| Land | 13,555,108 | – | 13,555,108 | 13,555,108 |
| Land improvements | 17,091,418 | – | 17,091,418 | – |
| Buildings, roadways and structures | 144,232,447 | 50,091,395 | 94,141,052 | 81,509,792 |
| Equipment and furnishings | 24,250,852 | 14,304,327 | 9,946,525 | 6,639,609 |
| Vehicles | 7,949,108 | 6,756,596 | 1,192,512 | 1,461,106 |
| | 207,078,933 | 71,152,318 | 135,926,615 | 103,165,615 |
| Capital works in progress | 1,181,183 | – | 1,181,183 | 32,910,832 |
| | **208,260,116** | **71,152,318** | **137,107,798** | **136,076,447** |

# THE NIAGARA PARKS COMMISSION

## NOTES TO FINANCIAL STATEMENTS

for the year ended October 31, 2002

### 3. Post-Employment Benefits

The Commission provides a defined employee future benefit, payable on termination to certain full-time employees with a minimum of five years of service. The benefit is calculated on the basis of one week's remuneration, at the time of termination, for every year of full-time service provided to the Commission. See note 8 for other post-employment benefits.

Defined Benefit Plan Information

| | 2002<br>$ | 2001<br>$ |
|---|---|---|
| Employee benefit plan assets | – | – |
| Employee benefit plan liabilities | 2,779,523 | 2,571,209 |
| Employee benefit plan deficit | **2,779,523** | **2,571,209** |
| Benefit obligation recognized on the balance sheet | | |
| Benefit obligation, beginning of the year | 2,571,209 | 2,315,979 |
| Expense for the year | 341,454 | 327,952 |
| Benefits paid during the year | (133,140) | (72,722) |
| Benefit obligation, end of year | **2,779,523** | **2,571,209** |

The main actuarial assumptions applied in the valuation of the defined benefit plan are as follows:

**Interest (Discount) Rate** – The accrued obligation and the expense for the year were determined using a discount rate of 6%.

**Salary Levels** – Future salary and wage levels were assumed to increase at 4% per annum.

### 4. Commitments

The Commission is committed to spending approximately $ 2,330,000 on capital projects in the next year.

### 5. Contingencies

The Commission is in litigation pertaining to certain claims for which the likelihood of loss is not determinable and the amount not reasonably estimable. Accordingly, no provision for these claims is reflected in the financial statements.

# THE NIAGARA PARKS COMMISSION

## NOTES TO FINANCIAL STATEMENTS

for the year ended October 31, 2002

### 6. Statement of Cash Flows

Changes in working capital components include:

| | 2002<br>$ | 2001<br>$ |
|---|---|---|
| Accounts receivable | 930,726 | (941,039) |
| Inventories | (796,808) | (54,794) |
| Prepaid expenses | (169,420) | 120,613 |
| Bank loan | 3,000,000 | 3,000,000 |
| Accounts payable and accrued payroll | (3,710,847) | 780,710 |
| | **(746,349)** | **2,905,490** |

Interest

| | 2002<br>$ | 2001<br>$ |
|---|---|---|
| Interest received | **63,868** | **135,938** |
| Interest paid | **535,215** | **298,644** |

### 7. Operating Leases

The Commission leases vehicles and equipment under operating leases expiring in various years through 2005. The total obligation under operating leases amounts to approximately $ 1,863,494.

Future payments for each of the next three years are as follows:

| | $ |
|---|---|
| 2003 | 687,157 |
| 2004 | 656,827 |
| 2005 | 519,510 |

### 8. Other Post-Employment Benefits

The Commission provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund). These are multi-employer plans established by the Province of Ontario. These plans are accounted for as defined contribution plans, as the Commission has insufficient information to apply defined benefit plan accounting to these pension plans.

The Commission's obligations related to the PSPF and OPSEU Pension Fund was $ 1,214,516 (2001 - $ 1,140,146) and is included in the administrative and general expenses in the Statement of Operations and employee benefits in the Schedule of Operations - Gift Shops, Restaurants and Attractions.

# THE NIAGARA PARKS COMMISSION

## NOTES TO FINANCIAL STATEMENTS

for the year ended October 31, 2002

### 8. Other Post-Employment Benefits - continued

The cost of post-employment, non-pension benefits are paid by the Management Board Secretariat and are not included in the Statement of Operations.

See note 3 for details on the Commission's defined employee future benefit plan.

### 9. Financial Instruments

Credit Risk

The Commission is exposed to a credit risk by its customers. However, because of the large number of customers, credit risk concentration is reduced to a minimum.

Currency Risk

The Commission realizes approximately 16.33% (2001 - 18.71%) of its sales in foreign currency. Consequently, some assets and revenues are exposed to foreign exchange fluctuations.

Cash Flow Risk

The Commission has a bank loan payable bearing interest at prime less 50 basis points. Accordingly, the Commission is exposed to cash flow risks relating to potential fluctuations in market interest rates.

### 10. Related Party Transactions

The Commission exercises significant influence over the Niagara Parks Foundation (the "Foundation") by virtue of its ability to appoint some of the Foundation's Board of Directors. The Foundation is incorporated under the Ontario Corporations Act and is a registered charity under the Income Tax Act. The purpose of the Foundation is to promote conservation, environmental, historical, performing arts, and musical initiatives within the lands of The Niagara Parks Commission. Net resources of the Foundation amounted to $ 42,158. During the year, the Commission expended $ 32,688 on behalf of the Foundation. These amounts expended included advertising and promotion, computer software, office supplies, professional fees, telephone and website development.

The net assets and results of operations of the Foundation are not included in the statements of the Commission. Separate financial statements of the Foundation are available upon request.

### 11. Surplus Funds

Pursuant to Section 16(2) of the Niagara Parks Act any surplus moneys shall, on the order of the Lieutenant Governor in Council, be paid to the Minister of Finance and shall form part of the Consolidated Revenue Fund.

# THE NIAGARA PARKS COMMISSION

# PUBLIC SECTOR SALARY DISCLOSURES

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### Employees Paid $100,000 or more in 2001

*Prepared in accordance with the Public Sector Salary Disclosure Act, 1996*

### Record of Employees' 2001 Salaries and Benefits

| Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|
| John Kernahan | General Manger | $131,114.81 | $8,717.04 |
| Robert Brooker | Assistant General Manager | $120,432.64 | $ 291.38 |
| Robert McIlveen | Senior Director – Community Services | $102,838.25 | $ 248.48 |
| Nicholas Murphy | Senior Director – Technical Services | $102,838.25 | $ 248.48 |
| Alois Poltl | Senior Director – Food Services | $102,838.25 | $ 943.98 |
| Joel Noden | Senior Director – Retail, Attractions & Heritage | $102,838.25 | $ 248.48 |
| Murray Mold | Senior Director – Marketing & Business Development | $100,898.84 | $ 248.48 |

# ontario clean water agency

## manager's responsibility for financial information

Management and the Board of Directors are responsible for the financial statements and all other information presented in this Annual Report. The financial statements have been prepared by Management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgments.

The Ontario Clean Water Agency is dedicated to the highest standards of integrity in its business. To safeguard Agency assets, the Agency has a sound set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the bylaws of the Agency. Internal audits are conducted to assess management systems and practices, and reports are issued to the Senior Management Team.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal control. The Board of Directors meets quarterly to oversee the financial activities of the Agency and at least annually to review the financial statements and the external auditors' report thereon, and recommend them to the Minister of the Environment for approval.

The Provincial Auditor has examined the financial statements. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

Carl Griffith
President and
Chief Executive Officer

Brenda Baker
Vice President
Finance and Corporate Services

# auditor's report

To the Ontario Clean Water Agency,
the Minister of the Environment,
and to the Minister of Finance

I have audited the balance sheet of the Ontario Clean Water Agency as at December 31, 2002 and the statements of income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at December 31, 2002 and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting principles.

Eric Peters

Toronto, Ontario
March 12, 2003

Eric Peters, FCA
Provincial Auditor

## BALANCE SHEET - ASSETS

As at December 31, 2002
*(in thousands of dollars)*

| | 2002 | 2001 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | **$131,831** | $132,355 |
| Accounts receivable, net | | |
| Municipalities and other customers | **22,337** | 18,946 |
| Ministry of the Environment | **2,500** | 4 |
| Waterworks Remediation (note 3) | **-** | 2,784 |
| Goods and services tax receivable | **1,094** | 572 |
| Prepaids | **497** | 358 |
| Current portion of investments receivable: | | |
| Water and wastewater facilities (note 4) | **1,632** | 1,930 |
| Facilities under construction (note 5) | **2,252** | 5,381 |
| | **162,143** | 162,330 |
| Non-current assets | | |
| Investments receivable for water and wastewater facilities (note 4) | **43,832** | 52,859 |
| Investments receivable for facilities under construction (note 5) | **1,771** | 2,357 |
| Loans receivable - Top-up loan (note 6) | **552** | 636 |
| Provincial assistance advances (note 7) | **2,129** | 3,129 |
| Fixed assets, net (note 8) | **9,043** | 9,447 |
| | **57,327** | 68,428 |
| Total Assets | **$219,470** | $230,758 |

See accompanying notes to the financial statements

## BALANCE SHEET - LIABILITIES AND EQUITY

As at December 31, 2002

*(in thousands of dollars)*

| | 2002 | 2001 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | **$17,751** | $21,237 |
| Current portion of long-term liabilities (note 11) | **1,000** | 1,000 |
| Deferred Revenue | **35** | - |
| | **18,786** | 22,237 |
| Long-term liabilities: | | |
| Municipal contributions payable (note 10) | **211** | 720 |
| Employee benefits (note 11) | **6,404** | 6,621 |
| | **6,615** | 7,341 |
| Equity of Ontario: | | |
| Contributed surplus (note 13) | **100,330** | 104,065 |
| Retained earnings | **93,739** | 97,115 |
| | **194,069** | 201,180 |
| Contingencies (note 14) | | |
| Total Liabilities and Equity | **$219,470** | 230,758 |

See accompanying notes to the financial statements

On behalf of the Board

Gadi Mayman
Director

Carl Griffith
Director

## STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31, 2002
*(in thousands of dollars)*

| | 2002 | 2001 |
|---|---|---|
| **Utility Operations Revenues:** | | |
| Utility operations | $106,815 | 110,782 |
| Fees | 1,661 | 1,597 |
| Total Operating Revenues | 108,476 | 112,379 |
| **Operating Expenses:** | | |
| Salaries and benefits (note 11) | 39,428 | 36,918 |
| Other operating expenses | 73,697 | 76,004 |
| Amortization of fixed assets | 1,920 | 1,592 |
| Provision for operating losses | 56 | 470 |
| Electronic Operating Systems (note 1c) | 3,347 | 7,430 |
| Total Operating Expenses | 118,448 | 122,414 |
| **Net Loss - Utility Operations** | (9,972) | (10,035) |
| **Financing Revenues:** | | |
| Revenues from investments | 7,591 | 10,840 |
| Interest on facilities under construction | 208 | 287 |
| Total Financing Revenues | 7,799 | 11,127 |
| **Financing Expenses:** | | |
| Interest | 60 | 75 |
| Loan administration expenses | 1,063 | 1,041 |
| Provision for losses | - | 1,000 |
| Amortization of fixed assets | 60 | 60 |
| Total Financing Expenses | 1,183 | 2,176 |
| **Net Income - Financing** | 6,616 | 8,951 |
| **Net Loss for the Period Before Property Transfer Initiative and Walkerton Inquiry Costs** | (3,356) | (1,084) |
| **Property Transfer Initiative** (note 15) | (20) | (66) |
| **Walkerton Inquiry Costs** | - | (674) |
| **Net Loss for the Period** | (3,376) | (1,824) |
| **Retained earnings, opening balance** | 97,115 | 100,109 |
| **Workers Compensation Benefits** (note 11) | - | (1,170) |
| **Retained earnings, ending balance** | $93,739 | $97,115 |

See accompanying notes to the financial statements

## STATEMENT OF CASH FLOWS

For the year ended December 31, 2002
*(in thousands of dollars)*

| | 2002 | 2001 |
|---|---|---|
| **Cash provided by (used for)** | | |
| **Operating activities:** | | |
| Net Loss | **($3,376)** | ($1,824) |
| Items not affecting cash: | | |
| Amortization of fixed assets | **1,980** | 1,652 |
| | **(1,396)** | (172) |
| Changes in non-cash operating working capital | | |
| • Accounts receivable | **(1,129)** | 2,813 |
| • Prepaids | **(139)** | (132) |
| • Accounts payable and accrued liabilities | **(3,486)** | (1,674) |
| • Ministry of the Environment | **(2,496)** | 228 |
| • Deferred revenue | **35** | - |
| | **(7,215)** | 1,235 |
| **Net cash flows from operating activities** | **(8,611)** | 1,063 |
| Financing Activities: | | |
| Decrease in investments receivable for water and wastewater facilities | **9,325** | 273 |
| Decrease in investments receivable for facilities under construction | **3,715** | 782 |
| Decrease in municipal contributions payable | **(509)** | (877) |
| Decrease in long-term employee benefits payable | **(217)** | (1,004) |
| Decrease in provincial assistance advances receivable | **1,000** | 14 |
| Decrease in loans receivable - Top-up loan | **84** | 77 |
| Changes in contributed surplus | **(3,735)** | (1,647) |
| **Net cash flows from financing activities** | **9,663** | (2,382) |
| Fixed assets - acquired | **(1,576)** | (2,673) |
| **Decrease in Cash** | **(524)** | (3,992) |
| **Cash and Cash Equivalents, Opening Balance** | **132,355** | 136,347 |
| **Cash and Cash Equivalents, Ending Balance** | **$131,831** | $132,355 |

See accompanying notes to the financial statements

# notes to financial statements

## GENERAL:

The Ontario Clean Water Agency (the "Agency") was established on November 15, 1993, under the authority of The *Capital Investment Plan Act*, 1993 (the "Act").

In accordance with the Act, the Agency's objectives include:

- Assisting municipalities to provide water and wastewater services on a cost-recovery basis by financing, planning, developing, building and operating such works and services;
- Financing, building and operating water and wastewater facilities on behalf of Ontario on a cost-recovery basis; and
- Providing these services so as to protect human health and the environment, encourage conservation of water resources and support Provincial policies for land use and settlement.

In accordance with the provisions of the Act, the Agency is incorporated under the laws of Ontario. The Agency is exempt from Federal and Provincial income taxes.

## 1. SIGNIFICANT ACCOUNTING POLICIES:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants. Included below are those accounting policies, which are of significance to the Agency.

(a) **Cash and cash equivalents**
Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased. Cash equivalents include $123 million invested with the Province of Ontario Savings Office.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

(b) **Fixed assets**

Major capital expenditures with a future useful life beyond the current year are capitalized at cost. Amortization is provided using the declining balance method with a half-year provision in the year of purchase if the asset is available for use. Fixed assets are being amortized at annual rates as follows:

| | |
|---|---|
| Automotive equipment | 25% |
| Furniture and fixtures | 20% |
| Computer hardware | 33.33% |
| Computer software | 50% |
| Machinery and equipment | 20% |
| Leasehold improvements | Life of the lease |
| PEMS - Energy Management Equipment | Life of the contract |

(c) **Electronic Operating Systems**

As approved by the Board of Directors, the Agency continues to reflect spending on Electronic Operating Systems (OCWAware™) as an operating expense in the year in which it is incurred.

(d) **Investments receivable for facilities under construction:**

Interest on borrowings and other incremental expenditures relating to facilities are capitalized during the construction period. The rate of interest is set at the start of the fiscal year by using the average one-year interest rate of the prior year, paid by the Ontario Financing Authority.

(e) **Utility operations:**

A portion of the contractual arrangements with clients for the operation of water and wastewater treatment facilities provides for the recovery of all costs incurred in their operations plus a management fee. Revenue is recognized at the time such costs are incurred even though agreements may provide for the collection of a portion of those costs in future years. Accordingly, costs incurred in excess of amounts billed and to be recovered in future years are classified as "Investments receivable in water and wastewater facilities."

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

(f) **Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturities of these instruments. Due to prepayment options, the carrying value of the balance of the financial assets and long-term liabilities approximates their fair value.

3. WATERWORKS REMEDIATION

In 2000, the Agency responded to the request from the Province of Ontario to provide remediation services for the Municipality of Brockton (Walkerton). At December 31, 2002, the costs incurred have been paid in full by the Municipality of Brockton.

4. INVESTMENTS RECEIVABLE FOR WATER AND WASTEWATER FACILITIES:

(a) These investments represent the outstanding principal portion of amounts receivable from clients for capital expenditures undertaken by the Agency on their behalf, and recoverable operating costs, if any, not billed. In addition, it includes capitalized interest on certain facilities that will be collected from clients during future years. Investments receivable for water and wastewater facilities are recorded at the lesser of both the outstanding principal and other capitalized amounts, and net realizable value.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. INVESTMENTS RECEIVABLE FOR WATER AND WASTEWATER FACILITIES (continued):

(b) The investments receivable are supported by agreements that bear interest at rates between 2.0% and 13.69%. Scheduled principal repayments of the investments are as follows:

| | (in thousands of dollars) |
|---|---:|
| 2003 | $1,632 |
| 2004 | 1,746 |
| 2005 | 1,868 |
| 2006 | 1,998 |
| 2007 | 2,138 |
| Thereafter | 36,082 |
| | 45,464 |
| Less: Current portion | 1,632 |
| | $43,832 |

5. INVESTMENTS RECEIVABLE FOR FACILITIES UNDER CONSTRUCTION:

(a) "Investments receivable for facilities under construction" represent new water and wastewater facilities or major capital improvements to existing facilities that have been undertaken by the Agency on behalf of its clients. Annually, the net recoverable amount from the customer is transferred to "Investments receivable for water and wastewater facilities." Certain clients pay the entire balance of their amount, accumulated as facilities under construction, within one year.

(b) In the current period, the Agency capitalized interest amounting to $0.2 million (2001- $0.3 million) to investments receivable for facilities under construction.

6. LOANS RECEIVABLE — TOP-UP LOANS:

The Agency made loans to municipalities to finance water and wastewater facilities that have received provincial assistance under the Municipal Assistance Program. The loans were made for terms of up to 20 years at interest rates between 8.1% and 8.85% set by the Province at the time the loan was granted.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. PROVINCIAL ASSISTANCE ADVANCES:

The agency finances the construction of certain facilities on behalf of municipalities. Portions of the construction costs are eligible for grants provided by the Ministry of the Environment.

8. FIXED ASSETS:

| (in thousands of dollars) | Cost | Accumulated Amortization | **Net Dec. 31, 2002** | Net Dec. 31, 2001 |
|---|---|---|---|---|
| Furniture and fixtures | $1,645 | $(972) | **$673** | $739 |
| Automotive equipment | 155 | (63) | **92** | 53 |
| Computer hardware | 5,553 | (3,967) | **1,586** | 1,600 |
| Computer software | 2,639 | (2,149) | **490** | 530 |
| Leasehold improvements | 6,503 | (1,965) | **4,538** | 4,917 |
| Machinery and equipment | 579 | (235) | **344** | 344 |
| Energy Management Equipment | 1,184 | (81) | **1,103** | -- |
| | $18,258 | $9,432 | **$8,826** | $8,183 |
| Capital Work in Progress | 217 | --- | **217** | 1,264 |
| | $18,475 | $9,432 | **$9,043** | $9,447 |

9. LEASE COMMITMENTS:

Annual lease payments under operating leases for rental of office equipment, premises and vehicles in aggregate are as follows:

| | *(in thousands of dollars)* |
|---|---|
| 2003 | $1,611 |
| 2004 | 1,523 |
| 2005 | 1,288 |
| 2006 | 933 |
| 2007 | 736 |
| Thereafter | 818 |
| | $6,909 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## 10. MUNICIPAL CONTRIBUTIONS PAYABLE:

| (in thousands of dollars) | Dec. 31, 2002 | Dec. 31, 2001 |
|---|---|---|
| Municipal contributions held for future repairs | **$1,433** | $1,812 |
| Municipal operating expense (repayment) prepayments | **(1,222)** | (1,092) |
| | **$211** | $720 |

At December 31, 2002, the Agency held funds that will be used for future repairs amounting to $1.4 million (2001 - $1.8 million). The $1.4 million is included in cash and cash equivalents.

## 11. NON-PENSION EMPLOYEE FUTURE BENEFITS:

The Agency is responsible for the accrued employee termination payments.

The costs of these employee future benefits have been estimated to amount to $7.4 million (2001 - $7.6 million) of which $1.0 million has been classified as current liability. The amount accrued in 2002 was $0.6 million (2001 - $0.6 million) and is included in salaries and benefits expense in the Statement of Income and Retained Earnings.

Also effective January 1, 2001, the Agency recognized its workers compensation obligation in the amount of $1.2 million for the prior period ending December 31, 2000. This amount has been determined from available actuarial calculations provided by the Workplace Safety and Insurance Board (WSIB) as at December 31, 2000. This is being done in accordance with the Canadian Institute of Chartered Accountants new recommendations for accounting for employee future benefits. These new recommendations were adopted in 2001 on a retroactive basis without restatement. The impact on years prior to 2001 has been reflected as an adjustment to opening retained earnings.

The valuation at December 31, 2002 is not expected to be ready until after the date of the financial statements preparation. It is management's opinion that the balance at December 31, 2002 will not be materially different. Adjustment to the estimated WSIB obligation cumulative balance, if any, will be made in the year the actual balance is provided by WSIB.

The cost of post-retirement, non-pension employee benefits are paid by Management Board Secretariat and are not included in the Statement of Income and Retained Earnings.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## 12. PENSION PLAN:

The agency provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario. These plans are accounted for as defined contribution plans, as the Agency has insufficient information to apply defined benefit accounting to these pension plans. The Agency's contribution related to the pension plans for the period was $1.4 million (2001 - $1.9 million) and is included in salaries and benefits in the Statement of Income and Retained Earnings.

## 13. CONTRIBUTED SURPLUS:

The opening contributed surplus was received from the Province of Ontario in the form of the book value of net assets in excess of obligations assumed. Included in the closing balance are the following:

| *(in thousands of dollars)* | **Dec. 31, 2002** | Dec. 31, 2001 |
|---|---|---|
| Opening balance, January 1 | **$104,065** | $105,712 |
| Adjustments to opening balance | **(3,735)** | (1,647) |
| | **$100,330** | $104,065 |

The adjustment to the opening balance relates to Ministry programs in place prior to the establishment of the Agency. The funds committed for repair and maintenance are spent on various undertakings, the largest of these undertakings has a spending limit of $7.5 million for capital repairs as approved by the Agency's Board of Directors. Of the $7.5 million approved, a cumulated $4.8 million has been spent. On other undertakings, a cumulated $2.6 million has been spent. The adjustment also includes provision for doubtful accounts on provincial assistance advances.

## 14. CONTINGENCIES:

### LITIGATION

The Agency is the defendant in a number of lawsuits. In most instances, these actions relate to the period prior to the establishment of the Agency on November 15, 1993. Some of these claims are covered by insurance after the application of a deductible, ranging from $2,500 to $50,000, depending on when the event of the claim occurred and the nature of the claim. The outcome of the lawsuits cannot be determined at this time. Losses, if any, will be accounted for in the period of settlement.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## 14. CONTINGENCIES (continued):

### GOODS AND SERVICES TAX (GST)

As a result of a recent GST audit by the Canada Customs and Revenue Agency (CCRA), the Agency has been advised by the CCRA that it is entitled to claim a refund for some of the GST on certain purchases, as the Agency had not claimed the full amount of the rebate to which it is entitled. The amount of the claim is not known at this time since the Agency is in the process of preparing the amount to be claimed from the CCRA. The refund will be accounted for in the period it is received.

### ELECTRICITY REBATES

Pursuant to certain statutes and agreements related to the government's restructuring of the electricity market, it is likely the Agency will be entitled to certain rebates related to the price it has incurred for electricity. The amount of the rebates will be based on the amount of energy consumed that is subject to the rebate mechanisms. The Agency will distribute a portion of the rebates to customers who are contractually eligible to share in such rebates. The number of rebates the Agency will receive and the portion of such rebates to be distributed to its customers are not determinable at this time. The Agency will therefore account for the receipt and distribution of the rebates in the year they are made.

## 15. PROPERTY TRANSFER INITIATIVE:

In 1997, the Province passed legislation requiring the transfer of ownership of water and wastewater facilities from the Agency to municipalities. The Property Transfer Initiative captures all real estate conveyance costs associated with the title transfers. To date, $4.5 million has been spent and an additional $0.136 million is expected to be spent and will be recorded in the period of the transfer. The transfers must be completed by the end of 2004.

## 16. RELATED PARTY TRANSACTIONS:

As a result of the relationship of the Agency with the Province, the following related party transactions exist and have been disclosed in the notes to the financial statements:

a) Transactions with the Ministry of the Environment

b) Transactions with the Province of Ontario Savings Office

c) Transactions with the Management Board Secretariat

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17. SALARIES:

The *Public Sector Salary Disclosure Act*, 1996 requires disclosure of Ontario public-sector employees paid an annual remuneration in excess of $100,000. The salary portion of an individual's compensation includes base salary, overtime payments, vacation/lieu time payouts, incentive and/or lump sum merit payments, and one-time relocation and/or resettlement payments. Listed below - by name, position, salary paid and taxable benefits - are those within OCWA whose salary exceeded $100,000 for the year 2002.

| Name | Position | Salary Paid | Benefits |
|---|---|---|---|
| Atkinson, Daniel | V.P., Operations | $143,136.23 | $220.28 |
| Baker, Brenda | V.P., Finance & Corporate Services | $110,991.23 | $193.52 |
| Booth, Gary | Operations Manager | $107,971.48 | $152.60 |
| Bouillon, Gaston | Operations Manager | $103,014.65 | $160.56 |
| Brady, Michael | General Counsel | $160,680.08 | $339.54 |
| Carter, John | Manager, Project Dev. & Tech. Services | $101,510.61 | $206.08 |
| Edwards, David | Operations Manager, Biosolids | $107,503.18 | $152.60 |
| Ethier, Marc | Regional Operations Manager | $106,528.82 | $178.22 |
| Graham, Clifford | Operations Manager | $110,791.36 | $140.99 |
| Griffith, Carl | Chief Executive Officer | $145,580.65 | $290.28 |
| Kempenaar, Gary | Regional Operations Manager | $112,490.93 | $161.68 |
| Kind, Robin | Assistant General Counsel | $136,860.61 | $276.38 |
| Mancini, Toni | Manager, Corporate Planning | $140,492.58 | $185.12 |
| Neely, David | Manager, Process Compliance & CDF | $100,483.43 | $136.88 |
| Pontone, Dante | V.P., Information Technology | $112,443.23 | $223.52 |
| Quarisa, Frank | V.P., Project Dev. & Tech. Services | $102,833.00 | $201.37 |
| Reid, Nick | General Manager, South Peel | $120,115.71 | $185.12 |
| Sasaki, Lauren | Legal Counsel | $102,129.23 | $210.30 |
| Scott, Paul | Chief Executive Officer | $126,284.56 | $313.50 |
| Wickson, Louise | V.P., Finance and Admin. | $109,016.39 | $223.52 |
| Williams, Gord | Regional Operations Manager | $105,429.59 | $156.13 |

Ontario Lottery and
Gaming Corporation

Société des loteries et
des jeux de l'Ontario

# MANAGEMENT'S RESPONSIBILITY FOR ANNUAL REPORTING

The accompanying consolidated financial statements of the Ontario Lottery and Gaming Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Where required, management has made informed judgments and estimates in accordance with Canadian generally accepted accounting principles.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit and Risk Management Committee, which is composed entirely of directors who are neither officers nor employees of the Corporation. The Audit and Risk Management Committee reviews the financial statements and recommends them to the Board for approval. This Committee meets periodically with management, internal audit and the external auditors.

To discharge its responsibility, management maintains an appropriate system of internal control to provide reasonable assurance that relevant and reliable consolidated financial statements are produced and that the Corporation's assets are properly safeguarded. The Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their applications, on an ongoing basis. The reports prepared by the internal auditors are reviewed by the Committee. The internal auditors have free independent access to the Committee.

Grant Thornton LLP and KPMG LLP, the independent auditors appointed by the Board of Directors on the recommendation of the Audit and Risk Management Committee, have examined the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements. The independent auditors have full and unrestricted access to the Committee.

Barbaro

**Ron D. Barbaro**

**Chair and Chief Executive Officer**

E.T. Dalton

E.T. Dalton, CA
Chief Financial Officer and
Senior Vice President,
Finance and Administration

*May 16, 2003*

## AUDITORS' REPORT

To the Board of Directors of Ontario Lottery and Gaming Corporation
and to the Ministry of the Attorney General

We have audited the consolidated balance sheet of Ontario Lottery and Gaming Corporation as at March 31, 2003 and the consolidated statements of operations, cash flows, changes in Due to Province of Ontario and equity in capital assets for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

| | |
|---|---|
| KPMG LLP | Grant Thornton LLP |
| Chartered Accountants | Chartered Accountants |
| Toronto, Canada | Sault Ste. Marie, Canada |
| May 16, 2003 | May 16, 2003 |

## ONTARIO LOTTERY AND GAMING CORPORATION

### CONSOLIDATED BALANCE SHEET

As at March 31, 2003
(in thousands of dollars)

| | 2003 | 2002 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents (Note 2) | $ 499,015 | $ 543,059 |
| Accounts receivable | 46,831 | 59,456 |
| Due from Government of Canada | 1,168 | - |
| Prepaid expenses and other | 53,058 | 44,085 |
| | 600,072 | 646,600 |
| Pre-opening and deferred development expenditures (Note 3) | 35,774 | 50,365 |
| Loans receivable (Note 4) | 30,273 | 49,492 |
| Capital assets (Note 5) | 1,423,402 | 1,346,801 |
| Assets contributed to Chippewas of Mnjikaning and deferred charges (Note 6) | 22,744 | 18,902 |
| Cash and short-term investments held for First Nations (Note 7) | 54,938 | 30,691 |
| | $ 2,167,203 | $ 2,142,851 |
| **Liabilities and Equity** | | |
| **Current liabilities:** | | |
| Accounts payable and accrued liabilities | $ 272,325 | $ 248,161 |
| Due to operators (Note 8) | 38,026 | 47,947 |
| Due to Chippewas of Mnjikaning (Note 8) | 4,884 | 16,634 |
| Due to Government of Canada | - | 30,758 |
| Deferred revenues | 14,579 | 10,309 |
| Current portion of long-term liabilities (Note 9) | 18,656 | 18,656 |
| | 348,470 | 372,465 |
| Due to First Nations (Note 7) | 46,753 | 22,973 |
| Long-term liabilities (Note 9) | 156,106 | 167,904 |
| **Equity:** | | |
| Due to Province of Ontario | 197,612 | 265,018 |
| Reserves (Note 2) | 169,622 | 154,250 |
| Equity in capital assets | 1,248,640 | 1,160,241 |
| | 1,615,874 | 1,579,509 |
| | $ 2,167,203 | $ 2,142,851 |

Commitments (Notes 4, 8 and 10)
Contingencies (Note 11)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Ron D. Barbaro, Chair

Louis E. Panontin, Director

## ONTARIO LOTTERY AND GAMING CORPORATION

### CONSOLIDATED STATEMENT OF OPERATIONS

Year ended March 31, 2003
(in thousands of dollars)

| | 2003 | 2002 |
|---|---|---|
| **Revenues:** | | |
| Lotteries and bingo | $ 2,208,776 | $ 2,111,703 |
| Commercial casinos | 1,669,963 | 1,694,513 |
| Charity casinos | 433,360 | 373,271 |
| Racetrack slot operations | 1,449,921 | 1,262,523 |
| | **5,762,020** | **5,442,010** |
| **Direct operating expenses:** | | |
| Lotteries and bingo | 1,516,045 | 1,439,532 |
| Commercial casinos | 1,276,590 | 1,245,158 |
| Charity casinos | 277,082 | 225,655 |
| Racetrack slot operations | 731,963 | 614,262 |
| | **3,801,680** | **3,524,607** |
| **Income before the undernoted** | **1,960,340** | **1,917,403** |
| Interest and other income, net | 15,995 | 28,922 |
| Foreign exchange gain | 26,854 | 32,885 |
| **Net income** | **$ 2,003,189** | **$ 1,979,210** |

Segmented information (Note 12)

See accompanying notes to consolidated financial statements.

## ONTARIO LOTTERY AND GAMING CORPORATION

### CONSOLIDATED STATEMENT OF CHANGES IN DUE TO PROVINCE OF ONTARIO

Year ended March 31, 2003
(in thousands of dollars)

| | 2003 | 2002 |
|---|---|---|
| Net income | $ 2,003,189 | $ 1,979,210 |
| Add (deduct): | | |
| Capital expenditures, net | (209,449) | (262,586) |
| Amortization of capital assets | 132,848 | 127,206 |
| Repayments of long-term liabilities | (18,656) | (6,856) |
| Increase in long-term liabilities | 6,858 | 142,904 |
| Distributions to First Nations | (65,892) | (85,165) |
| Transfers to reserves, net | | |
| Capital renewals | (8,113) | (30,366) |
| Operating | (4,744) | (5,968) |
| Severance | (2,515) | (2,557) |
| | (169,663) | (123,388) |
| Current year amount due | 1,833,526 | 1,855,822 |
| Payments to Province of Ontario | (1,900,932) | (1,857,051) |
| Amount due less payments | (67,406) | (1,229) |
| Due to Province of Ontario, beginning of year | 265,018 | 266,247 |
| **Due to Province of Ontario, end of year** | **$ 197,612** | **$ 265,018** |

See accompanying notes to consolidated financial statements.

### CONSOLIDATED STATEMENT OF EQUITY IN CAPITAL ASSETS

Year ended March 31, 2003
(in thousands of dollars)

| | 2003 | 2002 |
|---|---|---|
| **Balance, beginning of year** | $ 1,160,241 | $ 1,160,909 |
| Capital expenditures, net | 209,449 | 262,586 |
| Amortization of capital assets | (132,848) | (127,206) |
| Repayments of long-term liabilities | 18,656 | 6,856 |
| Increase in long-term liabilities | (6,858) | (142,904) |
| **Balance, end of year** | **$ 1,248,640** | **$ 1,160,241** |

See accompanying notes to consolidated financial statements

## ONTARIO LOTTERY AND GAMING CORPORATION

### CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended March 31, 2003
(in thousands of dollars)

| | 2003 | 2002 |
|---|---|---|
| **Cash derived from (applied to):** | | |
| **Operations:** | | |
| Net income | $ 2,003,189 | $ 1,979,210 |
| Amortization | 169,780 | 169,762 |
| Loss (gain) on disposal of capital assets | 6,783 | (36) |
| Unrealized foreign exchange gain | - | (3,070) |
| Change in non-cash operating working capital | (21,978) | (4,356) |
| | 2,157,774 | 2,141,510 |
| **Financing:** | | |
| Increase in long-term liabilities | 6 858 | 142,904 |
| Repayments of long-term liabilities | (18,656) | (6,815) |
| | (11,798) | 136,089 |
| **Investing:** | | |
| Pre-opening and deferred development expenditures | (21,148) | (9,692) |
| Issuance of loans | (4,170) | (6,096) |
| Repayment of loans | 23,389 | 13,911 |
| Capital expenditures | (217,874) | (256,417) |
| Proceeds on disposal of capital assets | 1,140 | 2,447 |
| Assets contributed to Chippewas of Mnjikaning and deferred charges | (5,442) | 198 |
| | (224,105) | (255,649) |
| **Other:** | | |
| Payments to Province of Ontario | (1,900,932) | (1,857,051) |
| Distributions to First Nations | (65,450) | (80,134) |
| Cash and short-term investments held for First Nations | 467 | (5,031) |
| | (1,965,915) | (1,942,216) |
| Increase (decrease) in cash and cash equivalents | (44,044) | 79,734 |
| Cash and cash equivalents, beginning of year | 543,059 | 463,325 |
| **Cash and cash equivalents, end of year** | **$ 499,015** | **$ 543,059** |
| Supplemental disclosure of cash flow information: | | |
| Cash interest received | $ 10,648 | $ 15,293 |
| Cash paid for interest | 11,219 | 6,724 |

See accompanying notes to consolidated financial statements.

# Ontario Lottery and Gaming Corporation
# Notes to Consolidated Financial Statements

Year Ended March 31, 2003
(tabular amounts in thousands of dollars)

The Ontario Lottery and Gaming Corporation (OLGC) was incorporated without share capital on April 1, 2000 pursuant to the *Ontario Lottery and Gaming Corporation Act, 1999*. The Corporation is a Crown agency of the Ontario government and is responsible for conducting and managing lottery games, five charity casinos and The Great Blue Heron Charity Casino Slot Machine Facilities, fifteen slot operations at racetracks and three commercial casinos in the Province of Ontario.

The Corporation has entered into operating agreements with Windsor Casino Limited, CHC Casinos Canada Limited, Falls Management Company and Great Blue Heron Gaming Company for the operation of Casino Windsor, Casino Rama, Casino Niagara and The Great Blue Heron Charity Casino Slot Machine Facilities, respectively.

Casino Rama is located on reserve lands of the Chippewas of Mnjikaning First Nation. Under the terms of the Casino Rama Revenue Agreement dated June 9, 2000, Ontario First Nations are entitled to the ongoing net revenues of the operation. Upon the ultimate dissolution and wind up of the operation, Ontario First Nations are entitled to the net proceeds from the disposition of the moveable assets as well as any remaining undistributed earnings. In addition, under the terms of a 25 year lease (expiring in March 2021) between the Corporation and Casino Rama Inc., upon dissolution and wind up of the casino operation the Corporation is required to surrender to the lessor, Casino Rama Inc., the lands and all improvements, except furniture and fixtures, which the Ontario First Nations are entitled to.

The assets, liabilities and operations of the slot machine facilities at The Great Blue Heron Charity Casino are included in these financial statements. The operating results are included with the results of the charity casinos. These financial statements do not include other operations carried out at that charity casino.

## 1. Significant accounting policies:

### a) Basis of consolidation:

The consolidated financial statements include the accounts of the Corporation and its 100% owned subsidiaries, Ontario Gaming Assets Corporation and OLC Services Limited. These subsidiaries were established to purchase capital assets which are leased to the parent corporation, at cost.

In addition, the consolidated financial statements combine the financial position and results of operations of the commercial casinos at Casino Rama, Casino Niagara and Casino Windsor, and of The Great Blue Heron Charity Casino Slot Machine Facilities.

### b) Revenue recognition:

Revenue from lottery games, for which results are determined based on a draw, is recognized when the draw takes place. Revenue from instant games is recognized when the ticket is activated for play by the retailer. Revenue from sports wagering games and bingo gaming is recognized when the ticket is sold to the consumer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

Gaming revenue from slot and table game operations represents the net win from gaming activities, which is the difference between amounts earned through gaming wagers less the payouts from those wagers.

Non-gaming revenues include revenue from hotel, food and beverage and other services and are recognized at the time the services are rendered to patrons. This also includes the retail value of accommodations, food and beverage and other services provided to patrons on a complimentary basis.

## Ontario Lottery and Gaming Corporation
## Notes to Consolidated Financial Statements

Year Ended March 31, 2003
(tabular amounts in thousands of dollars)

c) Promotional allowances:

Promotional allowances include the retail value of accommodation, food and beverage and other goods and services provided on a complimentary basis to patrons. The player clubs at the casinos and slot facilities allow patrons to earn points based on the volume of play. These points are accrued as a liability based on estimated redemption and are redeemable for complimentary goods and services and/or cash rebates. Promotional allowances include the value of the points as they are earned.

Promotional allowances also include the retail value of coupons (hotel, food and beverage and other goods and services) and other incentives provided to the patrons when these coupons are redeemed. The retail value of these coupons is included in revenue.

The estimated costs of providing these promotional allowances have been included as expenses in the Statement of Operations.

d) Pre-opening and deferred development expenditures:

Certain expenditures, consisting of compensation, consulting and other costs incurred in connection with the development and opening of racetrack slot operations and casinos are deferred and amortized over three years, commencing with site opening.

Expenditures, consisting of compensation, consulting and other costs incurred in connection with the development of a management information system and other projects are deferred and amortized over a period not exceeding five years.

e) Capital assets:

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 10 to 50 years |
| Furniture and fixtures | 3 to 10 years |
| Leasehold improvements | 3 to 15 years |
| Lottery gaming assets | 3 to 5 years |
| Casino and racetrack slot operation gaming assets | 3 to 5 years |

Capital assets are amortized when brought into operations.

Construction in progress is stated at cost. Costs will be amortized commencing upon completion of the related project. Interest on debt used to finance major additions to capital assets is capitalized during the construction phase. The interest cost is determined using the interest rate on incremental debt incurred by the Corporation to finance these capital assets. Interest capitalized is amortized over the same period as the related asset.

The Corporation regularly reviews the carrying values of its capital assets by comparing the carrying amount of the asset to the expected future cash flows to be generated by the asset. If the carrying value exceeds the estimated amount recoverable, a write-down equal to the excess of the carrying value of the asset's fair value is charged to operations.

f) Assets contributed to Chippewas of Mnjikaning and deferred charges:

Assets contributed to Chippewas of Mnjikaning, consisting primarily of funding for the construction of a community centre, senior centre and certain infrastructure facilities, are amortized over the term of the

Casino Rama ground lease. Deferred charges consist of financing fees, which are amortized over the term of the related debt.

g) Foreign currency translation:

Monetary assets and liabilities are translated at the year-end exchange rates. Non-monetary assets and liabilities are translated at the historical exchange rates. Statement of Operations items are translated at the rate of exchange in effect at the transaction date. Translation gains and losses are included in the Consolidated Statement of Operations in the period in which they arise.

h) Derivative financial instruments:

Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning, is party to certain derivative financial instruments, principally interest rate swap contracts, used to manage its exposure to interest rate fluctuations on the non revolving term loan (Note 9). These instruments are not recognized in the financial statements of the Corporation on inception. Payments and receipts under the interest rate swap contracts are recognized as adjustments to interest capitalized to construction in progress or to interest expense. The fair value of the interest rate swap contracts was calculated based on market conditions at year-end, supplemented with a quote from a financial institution. The fair value represents the amount that would be paid to terminate or replace the contracts. There are no present plans to terminate or replace significant portions of the contracts.

i) Concentration of credit risk:

The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of cash equivalents, accounts receivable and loans receivable. Cash equivalents consist of deposits with major commercial banks. Accounts receivable includes credit provided to retailers of lottery products and patrons of commercial casinos. Loans receivable consist of loans to racetrack operators and municipalities. The Corporation performs ongoing credit evaluations of retailers, patrons, racetrack operators and municipalities and maintains reserves for potential credit losses.

j) Financial instruments:

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, loans receivable, cash and short-term investments held for First Nations, accounts payable and accrued liabilities, due to operators, due to Chippewas of Mnjikaning, and long-term liabilities. The fair value of these financial instruments, excluding loans receivable and long-term liabilities approximates carrying amounts due to the short maturities of these instruments. The fair value of loans receivable approximates carrying value prior to consideration of the allowance for loan losses, and is estimated by discounting the future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and similar remaining maturities. The fair value of the long-term liabilities approximates carrying value and is calculated by discounting future cash flows using rates currently available for similar terms and maturities.

k) Use of estimates:

In conformity with Canadian generally accepted accounting principles, management of the Corporation has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period to prepare these financial statements. Actual results could differ from those estimates.

## Ontario Lottery and Gaming Corporation
## Notes to Consolidated Financial Statements

Year Ended March 31, 2003
(tabular amounts in thousands of dollars)

### 2. Cash and cash equivalents:

Cash and cash equivalents include the below noted amounts which are held in separate accounts:

| | 2003 | 2002 |
|---|---|---|
| Reserves: | | |
| Capital renewals | $86,685 | $78,572 |
| Operating | 61,160 | 56,416 |
| Severance | 21,777 | 19,262 |
| | 169,622 | 154,250 |
| Prize funds on deposit | 32,852 | 33,288 |
| Term loan proceeds | 8,132 | 61,074 |
| | $210,606 | $248,612 |

The Corporation has established cash reserves at the commercial casinos in accordance with their respective operating agreements for the following purposes:

i) Capital renewals reserve for capital asset additions other than normal repairs or major renovations;

ii) Operating reserve to satisfy specified obligations in the event that revenue will be insufficient to meet such obligations; and

iii) Severance reserve to satisfy certain obligations of the Corporation arising from termination or layoff of employees of an operator in connection with the termination of an operator.

Prize funds on deposit are funds set aside representing the estimate of gross prizes outstanding less an estimate for prizes not expected to be claimed by players.

Term loan proceeds represent restricted cash at Casino Rama that is to be used for construction in progress.

Cash and cash equivalents include bank term deposits amounting to $43,000,000 (2002 - $92,914,000) at interest rates varying between 2.1% and 3.2% (2002 – 1.8% and 4.9%).

### 3. Pre-opening and deferred development expenditures:

| | | | 2003 | 2002 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Pre-opening expenditures | | | | |
| Commercial casinos | $ 4,327 | $ 3,180 | $ 1,147 | $ 1,402 |
| Charity casinos | 38,452 | 33,285 | 5,167 | 11,011 |
| Racetrack slot operations | 82,326 | 75,663 | 6,663 | 25,502 |
| | 125,105 | 112,128 | 12,977 | 37,915 |
| Deferred development expenditures | 31,790 | 8,993 | 22,797 | 12,450 |
| | $156,895 | $121,121 | $35,774 | $50,365 |

## Ontario Lottery and Gaming Corporation
## Notes to Consolidated Financial Statements

Year Ended March 31, 2003
(tabular amounts in thousands of dollars)

### 4. Loans receivable:

The Corporation has loaned funds to certain racetrack operators for the purposes of renovating or constructing buildings to accommodate the Corporation's slot machine facilities. Security is provided by mortgages and general security agreements covering the racetrack operators' assets. The loans bear interest based on the bank's prime rate and are repayable over periods ranging from one to ten years. The amounts will be repaid under an agreed upon formula by withholding from commissions that would otherwise be payable to the racetrack operators. The Corporation has also loaned funds to certain municipalities for purposes of infrastructure improvements. The amounts will be recovered from the municipal commissions otherwise payable.

The Corporation is committed to loan up to $32,500,000 to two racetrack operators of which $3,865,000 is repayable to the Corporation at March 31, 2003. As well, the Corporation is committed to loan up to a maximum of $4,875,000 to two municipalities of which $3,259,000 has been advanced at March 31, 2003.

### 5. Capital assets:

| | | | 2003 | 2002 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Land | $133,161 | $ - | $133,161 | $132,245 |
| Buildings | 636,925 | 56,623 | 580,302 | 642,615 |
| Furniture and fixtures | 408,182 | 229,220 | 178,962 | 62,227 |
| Leasehold improvements | 495,840 | 172,088 | 323,752 | 111,683 |
| Lottery gaming assets | 119,851 | 109,968 | 9,883 | 573 |
| Casino and racetrack slot operation gaming assets | 353,712 | 198,894 | 154,818 | 271,065 |
| Construction in progress | 42,524 | - | 42,524 | 126,393 |
| | $2,190,195 | $766,793 | $1,423,402 | $1,346,801 |

During the year the Corporation capitalized interest amounting to $1,369,000 (2002 - $4,085,000).

### 6. Assets contributed to Chippewas of Mnjikaning and deferred charges:

| | | | 2003 | 2002 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Assets contributed to Chippewas of Mnjikaning | $32,337 | $12,952 | $19,385 | $14,935 |
| Deferred charges | 3,950 | 591 | 3,359 | 3,967 |
| | $36,287 | $13,543 | $22,744 | $18,902 |

### 7. Cash and short-term investments held for First Nations:

| | 2003 | 2002 |
|---|---|---|
| Distributions to the segregated bank account | $45,881 | $22,832 |
| Interest earned | 872 | 141 |
| | 46,753 | 22,973 |
| Distribution due to First Nations, included in accounts payable and accrued liabilities | 8,185 | 7,718 |
| | $54,938 | $30,691 |

The Casino Rama Revenue Agreement requires that, commencing July 31, 2001, the Corporation retain 35% of the net distributions from Casino Rama in a segregated bank account if the Corporation has not received a joint direction from the Chiefs of Ontario and the Chippewas of Mnjikaning with respect to a new revenue distribution formula. The Corporation has not received this direction and accordingly has retained 35% of the net revenue in a segregated interest bearing bank account since July 31, 2001. This matter is currently the subject of an action brought by the Chippewas of Mnjikaning against the Province of Ontario and the Corporation and until the matter is decided by the Courts or, alternatively, the Chippewas of Mnjikaning and the Chiefs of Ontario reach agreement on a new revenue distribution formula, the Corporation is required to retain these funds.

On June 9, 2000, the Corporation, the First Nations of Ontario and the Province of Ontario entered into a Revenue Agreement that entitles the Ontario First Nations to the net revenues, as defined, from the operation of Casino Rama. Under the agreement, the Corporation is required to distribute the net revenues from the operation on a monthly basis. The payment related to March 2003 is included above as Distribution due to First Nations.

## 8. Related party transactions:

a) Under the terms of the development and operating agreements for each of the commercial casinos and The Great Blue Heron Charity Casino Slot Machine Facilities, the operator is entitled to receive an operator's fee calculated as a percentage of gross revenues and as a percentage of net operating margin, both as defined in each of the related development and operating agreements.

b) Under the terms of the development and operating agreement for Casino Rama, the Chippewas of Mnjikaning receive an annual fee of $4,500,000, adjusted for inflation, relating to provision of ongoing operating services. Other Chippewas of Mnjikaning charges amounting to $9,242,000 (2002 - $4,922,000) were also incurred during the year in connection with snow removal, water, sewer and emergency services. In addition, under the terms of a ten-year lease expiring July 2006, an annual rental of $667,000, adjusted for inflation, for office and warehouse space is paid to a company related to the Chippewas of Mnjikaning.

On April 30, 2002, an agreement was signed with the Chippewas of Mnjikaning, whereby the Corporation will reimburse the Chippewas of Mnjikaning 75% of the annual operating budget of the fire department, in exchange for fire protection services to the casino complex. This amount is included in other Chippewas of Mnjikaning charges above, and is defined in the agreement for the period of April 1, 2000 to July 31, 2011.

The lands used for the Casino Rama complex are leased by Casino Rama Inc. from Her Majesty the Queen in the Right of Canada under a 25-year lease, which expires in March 2021. Annual rent payable under this lease is $3,500,000, adjusted for inflation, and is paid out of the gross revenues of the Casino Rama complex to the Chippewas of Mnjikaning in accordance with instructions from Indian and Northern Affairs Canada as representative for Her Majesty the Queen. Under the terms of an expansion agreement, additional annual rent of $1,700,000, adjusted annually for inflation, is payable.

The Chippewas of Mnjikaning is the developer of the expansion of the Casino Rama complex and included in the amounts Due to the Chippewas of Mnjikaning is $1,334,000 (2002 - $9,047,000) related to the construction.

c) Under the terms of the development and operating agreement, the Mississaugas of Scugog Island First Nation receive an amount equal to 5% of the gross revenue of The Great Blue Heron Charity Casino Slot Machine Facilities in consideration for provision of the lands used for the Slot Machine Facilities.

# Ontario Lottery and Gaming Corporation
# Notes to Consolidated Financial Statements

Year Ended March 31, 2003
(tabular amounts in thousands of dollars)

## 9. Long-term liabilities:

| | 2003 | 2002 |
|---|---|---|
| Non revolving term loan | $167,904 | $186,560 |
| Less current portion | 18,656 | 18,656 |
| | 149,248 | 167,904 |
| Construction development liability (Note 10 (e)) | 6,858 | - |
| | $156,106 | $167,904 |

The Corporation entered into an agreement relating to the expansion and renovation of Casino Rama. Under the terms of the agreement, the Chippewas of Mnjikaning are responsible for the development, construction and financing of the expansion project at Casino Rama, which was substantially completed during the year. In addition, Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning, entered into a lending agreement which provides for a $186,560,000 non-revolving term credit facility for the project. The development and operating agreement for Casino Rama requires, among other things, that principal and interest payments be made from the gross revenues of the Casino Rama in nineteen quarterly principal installments, beginning June 28, 2002, of $4,664,000 and a final installment of $97,644,000.

The credit facility bears interest at rates ranging between bank prime and bank prime plus 1.5% dependent on conditions outlined in the credit facility agreement. Bank prime at March 31, 2003 is 4.75%. Interest paid during the year amounted to $10,858,000 (2002 - $6,256,000). An interest rate swap contract, which matures on June 30, 2007, was entered into with an original notional principle of $125,100,000. The balance under the contract at March 31, 2003, amounted to $115,224,000 (2002 - $111,200,000). The contract results in a fixed rate of 6.68% on the outstanding notional amount. The interest rate risk exposure is limited to the net differential between the variable borrowing rate and the fixed rate under the swap contract, which is approximately 3% at March 31, 2003. The net interest rate receivable or payable under the contract is settled quarterly with the counter party, which is a Canadian chartered bank. The fair value of the interest rate swap contract, which represents the amount that would be paid to terminate or replace the contract as at March 31, 2003 is $8,332,000 (2002 -$7,646,000).

The funds advanced under the credit facility have been secured by certain Casino Rama assets.

The principal repayments expected to be made over the next four years from the cash flow of the complex are approximately as follows:

| | |
|---|---|
| 2004 | $18,656 |
| 2005 | 18,656 |
| 2006 | 18,656 |
| 2007 | 111,936 |

## 10. Commitments:

a) Obligations under operating leases:
The Corporation has entered into several leases for property and equipment. The future minimum lease payments are approximately as follows:

| | |
|---|---|
| 2004 | $11,670 |
| 2005 | 9,972 |
| 2006 | 9,223 |
| 2007 | 7,266 |
| 2008 | 4,058 |
| | 42,189 |
| Thereafter | 14,314 |
| | $56,503 |

## Ontario Lottery and Gaming Corporation
## Notes to Consolidated Financial Statements

Year Ended March 31, 2003
(tabular amounts in thousands of dollars)

The Corporation has extended its lease agreement for the interim premises at Casino Niagara until December 9, 2006 together with an option to renew for a further five years until December 9, 2011.

b) Suppliers:

The Corporation has computer hardware and maintenance agreements with future payments of approximately:

| | |
|---|---|
| 2004 | $6,960 |
| 2005 | 1,666 |
| | $8,626 |

c) Lotteries:

The Corporation has purchase agreements with suppliers for ticket printing services and on-line supplies. A commitment for purchases to a maximum of $9,365,000 is in force until September 2004.

The Corporation has signed a contract for the replacement of its on-line lottery terminals and terminal software. The test phase of the terminal implementation commenced in late 2002 and implementation at retailer locations will commence during the summer of 2003. The total cost of this project is estimated to be $85,000,000.

d) Casino Windsor:

In connection with the permanent casino complex in Windsor, Ontario, and under the terms of an agreement, the Corporation agreed to provide the City of Windsor with a fixed return over 20 years with payments commencing May 1, 1998 in the amount of $2,600,000 per annum for the first ten years and $3,000,000 per annum for the last ten years.

e) Casino Niagara:

In connection the permanent casino complex in Niagara Falls, Ontario, and under the terms of an agreement, the Corporation agreed to provide the Corporation of the City of Niagara Falls (the City) with a fixed return over 20 years with payments commencing December 7, 2000 in the amount of $2,600,000 per annum for the first ten years, $3,000,000 per annum for the next ten years and then $3,000,000, adjusted for Consumer Price Index, as defined in the agreement, thereafter. In addition, the Corporation is obligated to reimburse the City for the Corporation's share of certain infrastructure costs amounting to $3,300,000.

On January 29, 2002 the Corporation signed an amended and restated master development agreement with Falls Management Company (FMC) for the construction and development of a permanent casino complex in Niagara Falls, Ontario. Under the terms of the contract, construction financing is the responsibility of the developer and risks of the contract are substantially transferred to the developer. The risks to the Corporation include force majeure, extraordinary fluctuations in interest rates and Canadian dollar devaluation. The complex opening is scheduled for the spring 2004. The Corporation will purchase the permanent casino complex from FMC for $794,000,000 upon the completion of the project. Additional capital costs to be incurred by the Corporation are estimated at $203,000,000 of which $92,351,000 has been expended at March 31, 2003. Included in the costs expended to date is $6,858,000 in construction development fees, representing a fee of 2.5% of project costs incurred by FMC to March 31, 2003 (Note 9). The total cost of the project is estimated to be $997,000,000.

f) Racetrack Slot Operations:

As at March 31, 2003, the Corporation has entered into discussions with racetrack owners for the establishment of two additional racetrack slot operations, the total cost of which is undeterminable at this time.

## Ontario Lottery and Gaming Corporation
## Notes to Consolidated Financial Statements

Year Ended March 31, 2003
(tabular amounts in thousands of dollars)

### 11. Contingencies:

The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact on these financial statements. Settlements, if any, concerning these contingencies will be accounted for as a charge to the statement of operations in the period in which the settlement occurs.

# Ontario Lottery and Gaming Corporation
# Notes to Consolidated Financial Statements

Year Ended March 31, 2003
(tabular amounts in thousands of dollars)

## 12. Segmented information:

*2003*

| Segment Activity | Lotteries & Bingo | Commercial Casinos | Charity Casinos | Racetrack Slot Operations | Total |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Lotteries & bingo | $ 2,208,776 | $ - | $ - | $ - | $ 2,208,776 |
| Slots | - | 1,267,415 | 377,277 | 1,490,968 | 3,135,660 |
| Tables | - | 435,887 | 58,332 | - | 494,219 |
| Non-gaming | - | 177,745 | 24,983 | 1,183 | 203,911 |
| | 2,208,776 | 1,881,047 | 460,592 | 1,492,151 | 6,042,566 |
| Less promotional allowances | - | 211,084 | 27,232 | 42,230 | 280,546 |
| | **2,208,776** | **1,669,963** | **433,360** | **1,449,921** | **5,762,020** |
| Operating expenses: | | | | | |
| Non-gaming | - | 152,819 | 22,824 | 3,384 | 179,027 |
| Gaming and lottery operations | 88,275 | 305,246 | 91,518 | 132,015 | 617,054 |
| Lottery prizes | 1,134,696 | - | - | - | 1,134,696 |
| Commissions | 155,603 | - | 18,876 | 351,835 | 526,314 |
| Marketing and promotion | 40,781 | 125,949 | 16,094 | 64,343 | 247,167 |
| Operators' fees (Note 8 (a)) | - | 75,950 | 5,584 | - | 81,534 |
| Amortization | 6,371 | 66,781 | 33,391 | 63,237 | 169,780 |
| General and administration | 38,704 | 189,750 | 61,580 | 87,375 | 377,409 |
| Win contribution (Note 14) | - | 340,711 | 18,873 | - | 359,584 |
| Payments to Government of Canada (Note 15) | 51,615 | 19,384 | 8,342 | 29,774 | 109,115 |
| | **1,516,045** | **1,276,590** | **277,082** | **731,963** | **3,801,680** |
| **Income before the undernoted** | **692,731** | **393,373** | **156,278** | **717,958** | **1,960,340** |
| Interest and other income, net | 2,817 | 5,927 | 1,779 | 5,472 | 15,995 |
| Foreign exchange gain | - | 22,090 | 1,773 | 2,991 | 26,854 |
| **Net income** | **$ 695,548** | **$ 421,390** | **$ 159,830** | **$ 726,421** | **$ 2,003,189** |

*2002*

| Segment Activity | Lotteries & Bingo | Commercial Casinos | Charity Casinos | Racetrack Slot Operations | Total |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Lotteries & bingo | $ 2,111,703 | $ - | $ - | $ - | $ 2,111,703 |
| Slots | - | 1,274,551 | 322,026 | 1,289,417 | 2,885,994 |
| Tables | - | 444,880 | 53,397 | - | 498,277 |
| Non-gaming | - | 157,491 | 19,119 | 932 | 177,542 |
| | 2,111,703 | 1,876,922 | 394,542 | 1,290,349 | 5,673,516 |
| Less promotional allowances | - | 182,409 | 21,271 | 27,826 | 231,506 |
| | **2,111,703** | **1,694,513** | **373,271** | **1,262,523** | **5,442,010** |
| Operating expenses: | | | | | |
| Non-gaming | - | 139,402 | 17,664 | 2,967 | 160,033 |
| Gaming and lottery operations | 90,151 | 294,910 | 79,719 | 108,395 | 573,175 |
| Lottery prizes | 1,050,150 | - | - | - | 1,050,150 |
| Commissions | 151,577 | - | 16,169 | 303,995 | 471,741 |
| Marketing and promotion | 39,783 | 118,997 | 12,330 | 52,414 | 223,524 |
| Operators' fees (Note 8 (a)) | - | 83,244 | 5,020 | - | 88,264 |
| Amortization | 12,053 | 64,522 | 32,060 | 61,127 | 169,762 |
| General and administration | 44,663 | 171,099 | 38,739 | 57,783 | 312,284 |
| Win contribution (Note 14) | - | 343,810 | 16,857 | - | 360,667 |
| Payments to Government of Canada (Note 15) | 51,155 | 29,174 | 7,097 | 27,581 | 115,007 |
| | **1,439,532** | **1,245,158** | **225,655** | **614,262** | **3,524,607** |
| **Income before the undernoted** | **672,171** | **449,355** | **147,616** | **648,261** | **1,917,403** |
| Interest and other income, net | 8,651 | 17,403 | 607 | 2,261 | 28,922 |
| Foreign exchange gain | 7 | 26,633 | 1,773 | 4,472 | 32,885 |
| **Net income** | **$ 680,829** | **$ 493,391** | **$ 149,996** | **$ 654,994** | **$ 1,979,210** |

# Ontario Lottery and Gaming Corporation
# Notes to Consolidated Financial Statements

Year Ended March 31, 2003
(tabular amounts in thousands of dollars)

## 13. Post employment plans:

The Corporation provides pension benefits for all its permanent employees and to non-permanent employees who elect to participate through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employee's Union Pension Fund (OPSEU Pension Fund) which are multi-employer defined benefit pension plans established by the Province of Ontario. The cost of post-employment benefits is included as part of the pension contributions made by the Corporation to the PSPF and OPSEU Pension Fund and accordingly the Corporation has no additional liability for these future costs. The Corporations' contribution rate to the fund increased during the year by 4%. The Corporation's contribution during the year was $8,735,000 (2002 - $4,678,000).

The operators of the commercial casinos have created defined contribution pension plans for their employees. The pension expense for the year amounted to $15,474,000 (2002 - $15,433,000).

## 14. Win contribution:

The Corporation remits a contribution to the Province of Ontario equal to 20% of gaming revenue from commercial casinos and The Great Blue Heron Charity Casino Slot Machine Facilities.

## 15. Payments to Government of Canada:

The Corporation made the following payments to the Government of Canada:

| | 2003 | 2002 |
|---|---:|---:|
| Payments on behalf of the Province of Ontario | $22,612 | $21,886 |
| Goods and Services Tax | 86,503 | 93,121 |
| | $109,115 | $115,007 |

a) Payment on behalf of the Province of Ontario:

The provincial lottery corporations make remittances to the Government of Canada under an agreement dated August 1979 between the provincial governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

b) Goods and Services Tax:

As a prescribed Goods and Services Tax (GST) Registrant, the Corporation makes GST remittances to the Federal Government pursuant to the Games of Chance (*GST/HST*) Regulations of the Excise Tax Act. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities. The net tax attributable to gaming activities results in a 14% tax burden on taxable gaming expenditures incurred by the Corporation. The net tax attributable to non-gaming activities is calculated similar to any other GST registrant in Canada.

## 16. Comparative amounts:

Certain prior year amounts have been reclassified to conform with current year financial statement presentation.

**Ontario Lottery and Gaming Corporation**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| ARONSON | DONALD | Director, Corp. Events & Comm. Rel. | $108,791.25 | $202.16 |
| AUBE | MICHEL | Sr Manager, Corporate Security | $101,210.42 | $188.28 |
| BABALIS | CHRISTOS | Site General Manager | $101,623.85 | $184.62 |
| BAILEY | ROD | General Manager | $135,416.92 | $237.71 |
| BARBARO | RON | Chief Executive Officer | $360,213.59 | $7,377.25 |
| BARNETT | KENNETH | Director, New Business & Dev. | $118,461.69 | $2,032.82 |
| BELL-MURRAY | LISA | Director, Corp. Acct. & Rpt. | $147,049.51 | $256.99 |
| BERDOWSKI | ALAN | SVP, Lottery Division | $201,370.65 | $8,041.23 |
| BORTOLUSSI | ROY | Director, Jackpot & Value Brands | $131,693.24 | $238.17 |
| BROWN | GREGORY | Director e-Business | $115,628.58 | $225.41 |
| BURTON | TIMOTHY | Director, Taxation | $128,435.85 | $243.23 |
| CALDERONE | BART | Director, Strategic Projects | $144,290.93 | $257.07 |
| CAMERON | CHRIS | Dir, Challenge & Winning Feeling | $112,265.60 | $204.66 |
| CAMPBELL | ALEXANDER | Director, Customer Service | $129,092.37 | $222.86 |
| CARVALHO | ANTONIO | VP, Corp. Planning & e-Business | $172,836.04 | $2,055.97 |
| CHORONZEY | KAREN | Dir, HR Strategic Alliances | $104,809.55 | $194.19 |
| COOPER | JEFF | Director. Customer & Channel M | $135,833.38 | $1,515.92 |
| COWIE | GEOFFREY | Senior Legal Counsel | $106,942.10 | $187.92 |
| CRAIG | RON | Dir, Develop & Implementation | $130,068.82 | $242.85 |
| CRAWFORD | MONA | Director, Sales & Service Initiatives | $121,747.03 | $213.00 |
| CRONIN | JAMES | Sr Manager Public Relations | $134,615.50 | $248.91 |
| DALTON | EARL | Sr VP, Finance & Admin. | $201,370.65 | $9,700.73 |
| DEANS | WAYNE | Director, Internal Audit | $126,678.29 | $231.69 |
| DI MAURIZIO | MORY | General Manager | $109,943.15 | $191.63 |
| FERRARA | FRANCESCO | Senior Legal Counsel | $123,479.90 | $195.05 |
| FIORAVANTI | WALTER | VP, Human Resources | $181,613.58 | $14,812.29 |
| FLYNN | LARRY | Sr. VP, Marketing & Customer Dev. | $188,666.99 | $7,022.27 |
| FRAIR | ROBERT | Project Director - ERM | $124,176.57 | $229.18 |
| GAGESCH | KARL | Vice President, Finance | $146,900.72 | $14,323.02 |
| GIBBONS | BRENDA | Director, Procurement & Admin. | $130,629.47 | $240.99 |
| GLENAT | SUELLEN | Dir., Employee Relations & Comm. | $114,178.19 | $7,627.30 |
| GRAY | RICHARD | Director, Fin Plan, Budget & A | $109,655.01 | $185.42 |
| HENDERSON | MARK | Director, Regional Operations | $122,047.06 | $285.06 |
| HILL | DOUGLAS | Relationship Manager | $119,297.39 | $217.53 |
| KO | RONALD | Director, Bingo Gaming | $108,399.60 | $195.52 |
| KOZNIUK | BOB | VP, Charity & Aboriginal Casin | $212,286.92 | $13,253.25 |
| KURDYLA | DAVID | VP, Solutions Delivery | $103,269.22 | $5,205.24 |
| KYLE | BRIAN | Director, New Business Dev | $115,297.16 | $206.68 |
| LAPOINTE | CATHERINE | Director, Operate & Maintain | $110,340.69 | $208.86 |
| LOCKE | ROBERT | Dir., Facilities Maintenance | $126,452.26 | $1,985.64 |
| LONGMAN | ROBERT | Key Account Manager | $104,165.05 | $2,043.57 |
| MACDONALD | SHARON | Director, Planning & Controls | $140,737.63 | $269.10 |
| MADDOCKS | DAVID | Director, Development | $136,208.43 | $2,291.21 |
| MAGEE | MARK | Site General Manager | $110,306.63 | $208.59 |
| MARINELLI | THOMAS | Chief Technology Officer | $185,499.76 | $283.49 |
| MARKKULA | LEO | Director, Treasury | $124,760.66 | $229.18 |
| MCPHEE | TERRY | General Manager | $117,785.22 | $200.79 |
| MICUCCI | PAUL | VP, Racetrack Dev. & Operations | $201,944.16 | $2,316.95 |
| MITCHELL | BILL | Dir, Solutions Delivery RT&CC | $149,718.53 | $95.83 |

**Ontario Lottery and Gaming Corporation**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| MYERS | DAVID | VP, Sales & Service | $161,042.40 | $2,944.07 |
| NIEDER | MICHAEL | VP, Information Technology | $201,697.65 | $8,439.14 |
| PALMER | BRIAN | Dir., Process & Implementation | $113,709.20 | $211.80 |
| PERUGINI | TONY | Mgr., FinPlan Commercial Casinos | $105,237.28 | $196.83 |
| PETERS | INGRID | VP, Legal and Compliance | $197,679.66 | $8,475.45 |
| PRGOMET | JOHN | Dir., HR Programs & Infrastructure | $119,144.06 | $212.28 |
| RENNIE | KAREN | Site General Manager | $111,465.81 | $172.35 |
| ROZELUK | JERRY | Director, Regional Operations | $121,611.54 | $3,189.23 |
| SELDON DIMOCK | VERITY | Dir., Performance & Learning | $113,042.05 | $211.65 |
| SEPKOWSKI | MATT | Dir., Marketing & Cust. Development | $110,150.27 | $195.60 |
| SMITH | GEOFF | General Manager | $136,411.10 | $223.42 |
| STREICH | ROBERT | Manager, Lotteries | $102,710.88 | $173.97 |
| THORBURN | DAVID | Site General Manager | $103,618.89 | $164.67 |
| TOMIE | ADRIANA | Director, Shared Services | $136,840.75 | $256.15 |
| UHREN | CAMERON | General Manager | $137,256.77 | $226.97 |
| WALKER | STUART | General Manager | $127,247.44 | $208.80 |
| WHITMELL | DERECK | Director, Solutions Delivery | $115,078.13 | $208.99 |
| WISTERNOFF | JOHN | VP, Lottery Marketing | $160,955.35 | $7,497.32 |
| WOOD | BRIAN | Chief Operating Officer | $283,786.49 | $2,826.55 |
| YAMMINE | GEORGES | Director of Operations | $150,405.38 | $6,387.94 |
| ZELISNEY | JACKIE | Casino Manager | $116,082.03 | $206.70 |

# Ontario Northland Transportation Commission

## Management's Responsibility

The Ontario Northland Transportation Commission's management is responsible for the integrity and fair presentation of the consolidated financial statements and other information included in the annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods. All financial information in the annual report is consistent with the consolidated financial statements.

The Commission maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

The consolidated financial statements have been reviewed by the Commission's Audit and Finance Committee and have been approved by its Governing Board of commissioners. In addition, the consolidated financial statements have been audited by the Ontario Provincial Auditor, whose report follows.

R.R. Poulin
Chair and Acting CEO

Roy Hains
Executive Vice-President
Service Improvement and Operations

North Bay, Ontario
April 4, 2003

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

# Auditors' Report

**To the Ontario Northland Transportation Commission and to the Minister of Northern Development and Mines**

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 2002 and the consolidated statements of investment by Province of Ontario, operations and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

J.R. McCarter, CA
Assistant Provincial Auditor

Toronto, Ontario
April 4, 2003

# Ontario Northland Transportation Commission
## Consolidated Balance Sheet
(dollars in thousands)

| For the year ended December 31 | 2002 | 2001 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Accounts receivable (Note 3) | $ 20,190 | $ 21,733 |
| Inventory (Note 1) | 10,668 | 11,875 |
| Prepaid expenses | 357 | 236 |
| | 31,215 | 33,844 |
| **Self-Insurance Fund** (Note 2) | | |
| **- Market value $5,489;** (2001 - $4,291) | 5,474 | 4,176 |
| **Investment in capital assets** (Schedule 1) (Note 1) | 256,963 | 255,493 |
| **Discontinued operations** (Note 13) | - | 1,524 |
| **Accrued pension benefit asset** (Note 4) | 131,530 | 130,174 |
| | $ 425,182 | $ 425,211 |
| **Liabilities and Province of Ontario Equity** | | |
| **Current** | | |
| Bank loans and overdrafts (Note 3) | $ 17,248 | $ 14,324 |
| Accounts payable and accrued liabilities | 23,537 | 24,320 |
| Current portion of long-term debt (Note 5) | 2,223 | 2,111 |
| Deferred revenue | 285 | 208 |
| | 43,293 | 40,963 |
| **Discontinued operations** (Note 13) | - | 238 |
| **Provision for Self-Insurance** (Note 2) | 5,474 | 4,176 |
| **Long-term debt** (Note 5) | 28,478 | 30,771 |
| **Accrued Non-Pension Benefit Obligations** (Note 4) | 53,720 | 51,326 |
| | 130,965 | 127,474 |
| **Contingencies/Commitments** (Note 8) | | |
| **Province of Ontario Equity** | | |
| Investment by the Province of Ontario | 66,743 | 65,414 |
| Retained earnings | 227,474 | 232,323 |
| | 294,217 | 297,737 |
| | $ 425,182 | $ 425,211 |

Approved on behalf of the Commission:

Chair and Acting CEO

Executive Vice-President
Service Improvement and Operations

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Ontario Northland Transportation Commission
### Consolidated Statement of Investment by the Province of Ontario
(dollars in thousands)

| For the year ended December 31 | 2002 | 2001 |
|---|---|---|
| **Balance**, beginning of year | | |
| Net investment in capital assets | $ **16,465** | $ 11,578 |
| Net investment other than share capital (Note 5) | **48,949** | 48,949 |
| | **65,414** | 60,527 |
| **Net changes during the year** | | |
| Contributions from Province of Ontario | **3,398** | 5,647 |
| Retirements | **(1,426)** | - |
| Amortization | **(643)** | (760) |
| | **1,329** | 4,887 |
| **Balance**, end of year | | |
| Net investment in capital assets (i) | **17,794** | 16,465 |
| Net investment other than share capital | **48,949** | 48,949 |
| | $ **66,743** | $ 65,414 |

(i) Of the balance at year end $Nil (2001 - $1,373,000) relates to the Marine Operations which have been identified as discontinued operations (see Note 13).

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Ontario Northland Transportation Commission
## Consolidated Statement of Operations and Retained Earnings

(dollars in thousands)

| For the year ended December 31 | 2002 | 2001 |
|---|---|---|
| **Revenues** (Schedule 2) | $ 131,453 | $ 144,959 |
| **Expenses** (Schedule 2) | 117,805 | 129,394 |
| | 13,648 | 15,565 |
| **Other revenues and expenses** | | |
| Amortization (Schedule 2) | 14,191 | 12,964 |
| Interest expense (Schedule 2) | 2,260 | 2,233 |
| Investment and other income | (44) | - |
| Gain on sale of capital assets (Schedule 2) | (166) | (697) |
| **Net expenses** | 16,241 | 14,500 |
| **(Loss) income before the following items** | (2,593) | 1,065 |
| Service improvement plan costs (Note 1) | (2,309) | (3,865) |
| Discontinued Operations (Note 13) | 53 | 233 |
| **Net loss for the year** | (4,849) | (2,567) |
| **Retained earnings**, beginning of year | 232,323 | 234,890 |
| **Retained earnings**, end of year | $ 227,474 | $ 232,323 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Ontario Northland Transportation Commission
## Consolidated Statement of Cash Flows

(dollars in thousands)

| For the year ended December 31 | 2002 | 2001 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Loss before discontinued operations | $ (4,902) | $ (2,800) |
| Items not affecting cash | | |
| Amortization (Schedule 2) | 14,191 | 12,964 |
| Gain on disposal of capital assets (Schedule 2) | (166) | (697) |
| Pension/non-pension expense (recovery) (Note 4) | 2,681 | (1,315) |
| | 11,804 | 8,152 |
| Changes in non-cash working capital balances | | |
| Accounts receivable | 1,543 | 9,588 |
| Inventory | 1,207 | (2,074) |
| Prepaid expenses | (121) | 73 |
| Accounts payable and accrued liabilities | (783) | 2,275 |
| Deferred revenue | 77 | (138) |
| Discontinued operations (Note 13) | 54 | 251 |
| | 13,781 | 18,127 |
| **Investing activities** | | |
| Investment in capital assets | (17,001) | (22,878) |
| Proceeds from sale of capital assets | 722 | 1,145 |
| Decrease in other assets | (105) | (107) |
| | (16,384) | (21,840) |
| **Financing activities** | | |
| Reduction of long-term debt (Note 5) | (2,181) | (1,937) |
| Contributions from the Province of Ontario | 3,398 | 5,647 |
| Bank loans and overdrafts | 2,924 | 1,465 |
| Other liabilities | (1,538) | (1,462) |
| | 2,603 | 3,713 |
| **Change in cash and cash equivalents during the year** | - | - |
| **Cash and equivalents**, beginning of year | - | - |
| **Cash and equivalents**, end of year | $ - | $ - |
| **Supplemental disclosure of cash flow information:** | | |
| Interest paid during the year and included in net loss | $ 2,260 | $ 2,233 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Ontario Northland Transportation Commission
## Consolidated Schedule of Investment in Capital Assets
### Schedule 1

(dollars in thousands)

| For the year ended December 31 | | | 2002 | 2001 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| **Rail Services** | | | | |
| Roadway | $ 206,561 | $ 75,490 | **$ 131,071** | $ 126,517 |
| Buildings | 36,223 | 13,133 | **23,090** | 23,627 |
| Equipment | 75,346 | 36,495 | **38,851** | 40,967 |
| Under construction | 2,353 | - | **2,353** | 1,225 |
| **Telecommunications** | | | | |
| Equipment | 130,652 | 80,851 | **49,801** | 50,089 |
| Buildings | 3,760 | 1,665 | **2,095** | 2,097 |
| Under construction | 844 | - | **844** | 2,146 |
| **Bus services** | | | | |
| Coaches | 8,975 | 3,672 | **5,303** | 4,839 |
| Under construction | - | - | - | 510 |
| **Marine Services (Moosonee)** | | | | |
| Vessels | 385 | 294 | **91** | 101 |
| Under construction | 264 | - | **264** | 32 |
| **Development** | | | | |
| Land and buildings | 5,345 | 2,795 | **2,550** | 2,693 |
| Land held for resale | 650 | - | **650** | 650 |
| | $ 471,358 | $ 214,395 | **$ 256,963** | $ 255,493 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Ontario Northland Transportation Commission
## Consolidated Schedule of Operating Revenues and Expenses
## Schedule 2

(dollars in thousands)

| For the year ended December 31 | 2002 | 2001 |
|---|---|---|
| **Rail Services** | | |
| Sales revenue (Note 12) | $ 62,929 | $ 63,091 |
| Government reimbursement (Note 6) | 19,927 | 14,529 |
| Operating revenue | 82,856 | 77,620 |
| Operating expense | 68,110 | 66,816 |
| Operating income | 14,746 | 10,804 |
| Amortization | 7,116 | 6,622 |
| Gain on sale of capital assets | (87) | (76) |
| Interest expense | 1,769 | 1,877 |
| Income from operations | 5,948 | 2,381 |
| **Telecommunications** | | |
| Sales revenue (Note 7) | 37,745 | 56,743 |
| Operating expense | 35,387 | 47,200 |
| Operating income | 2,358 | 9,543 |
| Amortization | 6,014 | 5,344 |
| Loss on sale of capital assets | 1 | - |
| (Loss) income from operations | (3,657) | 4,199 |
| **Bus Services** | | |
| Sales revenue | 10,090 | 9,819 |
| Operating expense | 8,934 | 8,247 |
| Operating income | 1,156 | 1,572 |
| Amortization | 528 | 514 |
| Loss on sale of capital assets | 55 | - |
| Income from operations | 573 | 1,058 |
| **Marine Services (Moosonee)** | | |
| Sales revenue | 124 | 146 |
| Government reimbursement (Note 6) | 73 | 65 |
| Operating revenue | 197 | 211 |
| Operating expense | 191 | 206 |
| Income from operations | 6 | 5 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Ontario Northland Transportation Commission
## Consolidated Schedule of Operating Revenues and Expenses
### Schedule 2

(dollars in thousands)

| For the year ended December 31 | 2002 | 2001 |
|---|---|---|
| **Air Service Contracts** | | |
| Operating expense | - | 263 |
| Loss from operations | - | (263) |
| **Rental Properties** | | |
| Sales revenue | **565** | 566 |
| Operating expense | **314** | 403 |
| Operating income | **251** | 163 |
| Amortization | **49** | 107 |
| Gain on sale of capital assets | **(135)** | (621) |
| Income from operations | **337** | 677 |
| **Administration** | | |
| Operating expense | **4,869** | 6,259 |
| Operating loss | **(4,869)** | (6,259) |
| Amortization | **484** | 377 |
| Interest expense | **491** | 356 |
| Loss from operations | **(5,844)** | (6,992) |
| **Total Operations** | | |
| Sales revenue | **111,453** | 130,365 |
| Government reimbursement (Note 6) | **20,000** | 14,594 |
| Total revenues | **131,453** | 144,959 |
| Expenses | **117,805** | 129,394 |
| Operating income | **13,648** | 15,565 |
| Amortization | **14,191** | 12,964 |
| Gain on sale of capital assets | **(166)** | (697) |
| Interest expense | **2,260** | 2,233 |
| **(Loss) income from operations (i)** | **$ (2,637)** | $ 1,065 |

**(i)** Note: The above figure is before Service improvement plan costs (Note 1) and discontinued operations (Note 13).

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# Ontario Northland Transportation Commission
## Summary of Significant Accounting Policies

**December 31, 2002**

**Nature of Business**

The Ontario Northland Transportation Commission, an Operational Enterprise of the Ontario government, delivers a variety of commercial and non-commercial services, including rail freight, passenger rail, bus and telecommunications.

**Going Concern**

These financial statements have been prepared on a going concern basis. On December 4, 2000, the Commission accepted the recommendations of a Service Improvement Plan performed by an independent consulting firm. On December 13, 2000, the Minister of Northern Development and Mines accepted the recommendations of the Commission and directed it to implement the recommendations in two phases.

As part of Phase I the Minister has directed the ONTC to pursue:

The divestment of ONTelcom

The divestment or leasing of the Cochrane Station Inn

The reorganization of ONTC's marine operations (Owen Sound Transportation Company, Limited) into a separate agency operated out of Owen Sound (Note 13).

Improvements to the motor coach service

Enhancing tourism opportunities in the area the Polar Bear Express operates

During Phase II the ONTC was further directed, commencing in the summer of 2001, to:

Explore options to divest Ontario Northland's rail freight services through alternative delivery

Determine alternative delivery of the Northlander, the Little Bear and the Polar Bear rail service

As of the date of financial statement preparation the implementation of these recommendations continue to be in process, however, these financial statements do not reflect any adjustments that might be necessary to assets or liabilities of the Commission such as costs of restructuring or disclosure that may be appropriate should it carry out one or more of the above noted actions. The Marine Operations, with the exception of Moosonee, were divested through the sale of shares of the Owen Sound Transportation Company, Limited to the Province of Ontario effective April 1, 2002. This included the operation of the Pelee Island ferry.

# Ontario Northland Transportation Commission
# Summary of Significant Accounting Policies

**December 31, 2002**

## Employee Future benefits

Effective January 1, 2000, the Commission adopted the recommendations of the Canadian Institute of Chartered Accountants Handbook section 3461, Employee Future Benefits. The recommendations were adopted on a retroactive basis without restatement. The impact of prior years was reflected as an adjustment to opening retained earnings.

### Pension Plans

The Commission maintains a defined benefit pension plan for its employees. The obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. Pension fund assets are valued using current market values. The Accrued Pension Benefit Asset or Obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practice using management's best estimates.

### Non-Pension Benefit Plans

The Commission offers non-pension post retirement benefits such as group life, health care and long-term disability to employees through defined benefit plans. The costs associated with these future benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. In addition, as a Schedule 2 employer under the Workplace Safety and Insurance Board (WSIB), the Commission recognizes workers compensation benefits on an accrual basis using actuarial calculations provided by the WSIB for benefits in force, benefits not yet awarded and administrative loading costs.

Both Pension and Non-Pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and experience gains or losses. Experience gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plans. These expenses are recorded in the year in which employees render services to the Commission (See Note 4).

## Basis of Accounting

These consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc, O.N. Tel Inc., Star Transfer Limited, Air-Dale Limited and Nipissing Central Railway Company.

## Vacation Pay

Vacation pay is not accrued but is instead expensed in the year it is taken.

# Ontario Northland Transportation Commission
## Summary of Significant Accounting Policies

**December 31, 2002**

### Revenue Recognition

Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Revenues from other sources are recognized when earned, with the exception of federal government reimbursements. Reimbursements, upon audit verification of yearly losses are recorded on a cash basis. Advance payments made prior to final determination of losses are recorded on an accrual basis. Telecommunications toll revenue adjustments are recognized when measurement is reasonable (see Note 7).

### Inventory

With the exception of used rail, all materials and supplies are valued at average cost. Used rail is shown at unamortized book value determined at the time of retirement.

### Investment in Capital Assets and Amortization

Capital assets are stated at acquisition cost. Amortization is calculated using the straight-line method over the estimated service lives of the assets.

The estimated service lives for principal categories of assets are as follows:

| | |
|---|---|
| Roadway - main line and branches | 20 to 50 years |
| Railway diesel locomotives | 25 years |
| Railway cars | 33 years |
| Buildings | 50 years |
| Telecommunications equipment | 15 years |
| Vehicles | 3 years |
| Computer equipment | 5 years |
| Coaches | 12 years |

The Province of Ontario reimburses the Commission for the cost of certain capital assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to Net Investment in Capital Assets (Province of Ontario). Annual amortization on these capital assets is recorded as a reduction of the Net Investment in Capital Assets (see page 4).

### Self-Insurance Fund

The self-insurance fund assets are stated at acquisition cost.

### Income Taxes

As an Operational Enterprise of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

# Ontario Northland Transportation Commission
## Summary of Significant Accounting Policies

**December 31, 2002**

| | |
|---|---|
| **Accounting Estimates** | Preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated. |

# Ontario Northland Transportation Commission
# Notes to Consolidated Financial Statements

December 31, 2002

## 1. Status of Service Improvement Plan

In fiscal 2002 the Commission continued to take certain steps to implement parts of the Service Improvement Plan recommendations such as, the divestiture of the Owen Sound Transportation Company, Limited (OSTC) effective April 1, 2002, accepting and evaluating Request for Proposals (RFP's) submissions for both the Rail Services and Telecommunications divisions and an Internal Solutions Group (ISG) business proposal. In early 2003 the Commission made its recommendations to the Ontario Government including the Minister of Northern Development and Mines for approval. Since the timing and possible outcome of this approval is not known and given that the ultimate authority to implement the recommendations rests with the Ontario Government, these financial statements do not reflect any adjustments or additional disclosure that may be required with regards to assets and liabilities relating to both the Rail Services and Telecommunications divisions should the recommendations be approved.

In complying with the recommendations set out in the Service Improvement Plan the Commission incurred costs in the amount of $2,309,000 (2001 - $3,865,000) during the year. These costs consisted primarily of consulting fees and legal fees in carrying out the recommendations. It is the intention of the Commission to apply to the Ministry of Northern Development and Mines to have these costs reimbursed if they are not offset by future divestment proceeds. Neither of these two options is certain and therefore these costs continue to be expensed in the year they are incurred. The cumulative amount expensed since the initiation of the Service Improvement Plan in fiscal 2000 is $6,786,000.

## 2. Self-Insurance Fund

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a $100,000 premium paid by the Commission in addition to investment income earned on fund assets. Fund assets are comprised of investments in federal and provincial government bonds and cash in the amount of $5,374,000 (2001 - $3,929,000). The Commission charged an additional $1,000,000 (2001 - $2,000,000) to operations during the fiscal year.

Interest rates on the above mentioned bonds vary from 5.0% to 14.0% per annum. Maturity dates on these investments are staggered ranging from June 1, 2003 to June 2, 2009.

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements

December 31, 2002

### 3. Operating Line of Credit

The Commission had a demand operating line of credit with a Canadian Chartered Bank, bearing interest at the bank's prime rate less 0.5%. The maximum draws that could be advanced on this operating line were $12,000,000. In late fiscal 2001 the Commission negotiated a new revolving operating line of credit with the Ontario Financing Authority for up to $5,000,000. The purpose of this credit facility is to be used for the monthly rail settlements. Included in bank loans and overdrafts at year end are draws on the operating lines of $17,000,000 (2001 - $11,921,000). The collateral security on the credit facility agreement with the Canadian Chartered Bank is accounts receivable.

The Commission negotiated a new operating line of credit in early January 2002 with the Ontario Financing Authority in the amount of $20,000,000. This Operating Line was granted to the Commission with a restriction as set out in the Credit Facility that it be used to pay out the above noted demand operating line of credit with the Canadian Chartered Bank and secondly to finance Service Improvement Plan costs. The maximum draws on this credit facility was increased by $2,000,000 late in fiscal 2002.

### 4. Employee Future Benefits

The Commission is the administrator of its contributory pension plan which covers all permanent staff. The pension fund assets primarily include marketable securities, real estate and corporate and government bonds, which are invested by professional investment managers.

Included in the accrued non-pension benefit liability is worker's compensation benefits in the amount of $12,608,000 (2001 - $12,165,000). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2001. The valuation at December 31, 2002 is not expected to be ready until after the date of financial statement preparation. It is management's opinion that the balance at December 31, 2002 will not be significantly different.

#### a. Accrued Pension Benefit Assets

| | **2002** | 2001 |
|---|---|---|
| Projected benefit obligations | **$ 349,450,000** | $ 336,934,000 |
| Market value of plan assets | **407,558,000** | 437,013,000 |
| **Surplus** | **58,108,000** | 100,079,000 |
| **Accrued benefit assets** - beginning of year | **130,174,000** | 124,724,000 |
| Recovery | **1,251,000** | 5,343,000 |
| Funding contributions | **105,000** | 107,000 |
| **Accrued benefit assets** - end of year | **$ 131,530,000** | $ 130,174,000 |

# Ontario Northland Transportation Commission
# Notes to Consolidated Financial Statements

December 31, 2002

## 4. Employee Future Benefits (continued)

### b. Accrued Non-Pension Benefit Obligation

| | 2002 | 2001 |
|---|---|---|
| Accrued benefit obligation | **$ 42,047,000** | $ 40,353,000 |
| Market value of plan assets | **-** | - |
| **Unfunded liability** | **42,047,000** | 40,353,000 |
| **Accrued benefit liability** - beginning of year | **51,326,000** | 48,760,000 |
| Expense | **3,932,000** | 4,028,000 |
| Funding contributions | **(1,538,000)** | (1,462,000) |
| **Accrued benefit liability** - end of year | **$ 53,720,000** | $ 51,326,000 |

### c. Components of Net Periodic Pension Benefit Recovery

| | 2002 | 2001 |
|---|---|---|
| Current service cost | **$ 6,806,000** | $ 6,652,000 |
| Interest on accrued benefit obligation | **21,978,000** | 21,144,000 |
| Expected return on plan assets | **(30,912,000)** | (33,332,000) |
| Net amortization for the year | **877,000** | 193,000 |
| | **$ (1,251,000)** | $ (5,343,000) |

### d. Components of Net Periodic Non-Pension Benefit Expense

| | 2002 | 2001 |
|---|---|---|
| Current service cost | **$ 1,207,000** | $ 1,458,000 |
| Interest on accrued benefit obligation | **2,725,000** | 2,570,000 |
| | **$ 3,932,000** | $ 4,028,000 |

### e. Weighted Average Assumptions

| | | |
|---|---|---|
| Discount rate - pension | **6.50** | 6.50 |
| Discount rate - non pension | **6.75** | 6.75 |
| Expected long-term rate of return on plan assets | **7.25** | 7.50 |
| Rate of compensation increase | **4.00** | 4.00 |
| Medical cost increases | **4.50 % to 9.0%** | 4.50% to 9.0% |

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements

**December 31, 2002**

### 5. Long-term Debt

| | **2002** | 2001 |
|---|---|---|
| Loan from Ontario Financing Authority, bearing interest at 5.64% per annum, blended monthly payments of $43,000 for 10 years beginning May 1, 1998. | **$ 2,374,000** | $ 2,745,000 |
| Loan from Ontario Financing Authority, bearing interest at 5.60% per annum, blended monthly payments of $156,000 for 15 years beginning January 1, 2000. | **16,358,000** | 17,293,000 |
| Loan from Ontario Financing Authority, bearing interest at 6.37% per annum, blended monthly payments of $109,000 for 15 years beginning September 1, 1999. | **10,809,000** | 11,419,000 |
| Vendor take back loan on an asset purchase that bears 0% interest, repayable over 8 years in accordance with the terms of the purchase agreement. | **1,160,000** | 1,425,000 |
| | **30,701,000** | 32,882,000 |
| **Less** current portion | **2,223,000** | 2,111,000 |
| | **$ 28,478,000** | $ 30,771,000 |

During fiscal 2001, the Commission reclassified a $35,208,000 non-interest bearing loan with no specific repayment terms from the Province of Ontario to Investment by the Province of Ontario and restated the comparative figures accordingly. This was done to be consistent with how the loan was reflected in the Province of Ontario's consolidated financial statements. The Province, recognizing the concessionary nature of the loan, classified it as an equity investment in the Commission.

Payments required in the next five years and thereafter are as follows:

| | |
|---|---|
| 2003 | $ 2,223,000 |
| 2004 | 2,345,000 |
| 2005 | 2,471,000 |
| 2006 | 2,607,000 |
| 2007 | 2,750,000 |
| Thereafter | 18,305,000 |
| | $ 30,701,000 |

# Ontario Northland Transportation Commission
# Notes to Consolidated Financial Statements

December 31, 2002

## 6. Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry have entered into annual contribution agreements which define the amount of compensation which the Province of Ontario would provide in each fiscal year. In 2002 the provincial government has fully reimbursed losses on the passenger train services which accounts for a majority of the increase noted in the table below.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. Negotiations between the Commission and Transport Canada concluded in 1996. The amount of annual reimbursement was fixed at $2,500,000 for a five year period expiring in 2001. A temporary agreement was reached in 2002 to extend the original agreement noted above at the same terms until June 2003.

Details of Government reimbursement are as follows:

| | 2002 | 2001 |
|---|---|---|
| **From Province of Ontario:** | | |
| Rail - Passenger Service and Moosonee Branch | **$ 17,427,000** | $ 12,029,000 |
| Marine Services (Moosonee) | **73,000** | 65,000 |
| Discontinued operations (Note 13) | **928,000** | 1,570,000 |
| | **18,428,000** | 13,664,000 |
| **From Transport Canada:** | | |
| Current year's operations | **2,500,000** | 2,500,000 |
| | **$ 20,928,000** | $ 16,164,000 |

The Commission is dependent on these reimbursements to carry out its non-commercial operations.

## 7. Telecommunications Revenue

The Commission's Telecommunications Division has a traffic agreement with Bell Canada that permits the two companies to exchange and settle on the toll traffic that traverses their network. During fiscal 2002 the Access Tariffs charged by the Local Exchange Carriers were based on an interim decision made by the CRTC in late 2001 which is not expected to be finalized by the CRTC until sometime in 2003. In keeping with the Commission's accounting policy any revenue or cost adjustments whether positive or negative are to be recognized in the year in which they become known and estimable.

# Ontario Northland Transportation Commission
# Notes to Consolidated Financial Statements

December 31, 2002

## 8. Contingencies/Commitments

Various statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance after application of a $2,000,000 deductible. Should any loss result, it would be charged to operations when the amount is ascertained.

In 1998 a claim for $3,000,000 was submitted to the National Transportation Agency for partial reimbursement of the write-down of railway passenger rolling stock. The likelihood of the success of the claim remains not determinable at this time and as a result is not reflected in these financial statements.

The Commission has contractual obligations on a number of operating leases for such items as rail cars, computer equipment, automotive equipment and other. It is management's opinion that in aggregate the annual cost of these leases is not significant to the Commission as a whole.

The Commission is also obligated to certain job guarantee agreements with a significant number of its unionized employees.

## 9. Financial Instruments

The Commission's financial instruments consist of cash and term investments of the self insurance fund, accounts receivable, bank loans and overdrafts, accounts payable and long-term debt. Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## 10. Related Party Transactions

During the year, the Commission charged the ONTC Contributory Pension Fund $296,000 (2001 - $493,000) for financial and administrative support.

## 11. Comparative Figures

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements

December 31, 2002

### 12. Economic Dependence

During 2002, the Rail Services Division derived 47% (2001 - 45%) of its revenue from three major customers.

### 13. Discontinued Operations

As part of the recommendations of the Service Improvement Plan conducted in fiscal 2000 the Commission implemented one of the items in Phase I being the reorganization of its wholly owned subsidiary Owen Sound Transportation Company, Limited (OSTC). This was effectively done April 1, 2002 through a share sale of the OSTC to the Province of Ontario with no consideration being received by the Commission and no gain or loss. In addition the operation of Pelee Island has been assumed by the OSTC.

Selected financial information of the Marine Operations are as follows:

| | 2002 | 2001 |
|---|---|---|
| **Marine Services (Owen Sound)** | | |
| Sales revenue | $ **2,000** | $ 5,669,000 |
| Government reimbursement (Note 6) | **928,000** | 1,570,000 |
| Operating revenue | **930,000** | 7,239,000 |
| Operating expense | **929,000** | 7,302,000 |
| Operating income (loss) | **1,000** | (63,000) |
| Amortization | **1,000** | 4,000 |
| Net loss from operations | - | (67,000) |
| **Marine Services (Pelee Island)** | | |
| Sales revenue | **583,000** | 4,269,000 |
| Operating expense | **530,000** | 3,969,000 |
| Net income from operations | **53,000** | 300,000 |
| **Income from discontinued operations** | $ **53,000** | $ 233,000 |

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements

**December 31, 2002**

**13. Discontinued Operations** (continued)

Assets and liabilities of the Marine Operations at December 31, 2001 were as follows:

| | **2002** | 2001 |
|---|---|---|
| Current assets | **$** - | $ 40,000 |
| Capital assets | - | 1,484,000 |
| | **$** - | $ 1,524,000 |
| Long-term liabilities included in Accrued Non-Pension Benefit Obligations | **$** - | $ 238,000 |

Cash flows from the Marine Operations are as follows:

| | **2002** | 2001 |
|---|---|---|
| Operating activities | **$ 54,000** | $ 251,000 |
| Investing activities | - | - |
| Financing activities | - | - |

## Ontario Northland Transportation Commission
## Statement of Employees Paid in Excess of $100,000

**December 31, 2002**

| Name | Position | | Salary | | Taxable Benefits |
|---|---|---|---|---|---|
| R M Thompson | Counsel | $ | 125,133 | $ | 809 |
| S G Carmichael | Vice President - Transportation Services | $ | 122,772 | $ | 809 |
| B R Wheeler | Vice President - O.N. Telcom | $ | 122,772 | $ | 809 |
| R S Hutton | Acting President | $ | 116,544 | $ | 755 |
| S D Gowlett | Trainman | $ | 114,376 | $ | 112 |
| K Donnelly | Vice President - Finance & Administration | $ | 112,046 | $ | 732 |
| M Marshall | Engineman | $ | 108,675 | $ | 112 |
| L Y Picard | Trainman | $ | 108,666 | $ | 112 |
| B R Hofferd | Engineman | $ | 103,867 | $ | 112 |
| G Seguin | Engineman | $ | 102,864 | $ | 112 |
| D Church | Trainman | $ | 102,250 | $ | 112 |
| D Wood | Engineman | $ | 101,657 | $ | 112 |
| B Lacharity | Trainman | $ | 101,466 | $ | 112 |
| K O'Grady | Engineman | $ | 101,141 | $ | 112 |

Prepared under the Public Sector Salary Disclosure Act, 1996

ONTARIOPOWER
GENERATION

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Ontario Power Generation Inc. ("OPG" or "Company") are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has selected those it considers most appropriate in the circumstances. The preparation of the consolidated financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The consolidated financial statements have been properly prepared within reasonable limits of materiality.

Management maintains a system of internal controls which are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that OPG's assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored and evaluated by management and by an internal audit service and risk management function.

The Audit Committee meets regularly with management, internal audit services and the external auditors to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements and independent Auditors' Report, and to discuss significant financial reporting issues and auditing matters before recommending approval of the financial statements by the Board of Directors.

The consolidated financial statements have been audited by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The Auditors' Report outlines the auditors' responsibilities and the scope of their examination and their opinion on OPG's consolidated financial statements. The independent auditors had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

Ron Osborne

Ronald W. Osborne
*President and Chief Executive Officer*

Wayne M. Bingham
*Executive Vice President and Chief Financial Officer*

January 24, 2003 except as to notes 6(b), 13(b) and 23(b)
which are as at March 25, 2003

# AUDITORS' REPORT

**To the Shareholder of Ontario Power Generation Inc.**

We have audited the consolidated balance sheets of Ontario Power Generation Inc. as at December 31, 2002 and 2001 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of Ontario Power Generation Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

ERNST & YOUNG LLP
Chartered Accountants
Toronto, Canada

January 24, 2003 except as to notes 6(b), 13(b) and 23(b)
which are as at March 25, 2003

## CONSOLIDATED STATEMENTS OF INCOME

| **Years Ended December 31**<br>*(millions of dollars except where noted)* | 2002 | 2001 |
|---|---|---|
| **Revenues** | 5,746 | 6,239 |
| Fuel | 1,610 | 1,453 |
| Power purchased | 290 | 879 |
| **Gross Margin** | 3,846 | 3,907 |
| **Operating expenses** | | |
| Operations, maintenance and administration | 2,524 | 2,559 |
| Depreciation and amortization *(note 4)* | 752 | 810 |
| Property and capital taxes | 115 | 114 |
| Loss on transition rate option contracts *(note 15)* | 210 | - |
| | 3,601 | 3,483 |
| **Operating income before restructuring** | 245 | 424 |
| Restructuring *(note 14)* | 222 | 67 |
| **Operating income** | 23 | 357 |
| Other income *(note 21)* | 171 | - |
| Net interest expense | 150 | 139 |
| | (21) | 139 |
| **Income before income taxes** | 44 | 218 |
| Income taxes (recoveries) *(note 10)* | | |
| Current | 29 | (65) |
| Future | (32) | 131 |
| | (3) | 66 |
| Net income | 47 | 152 |
| Basic and diluted earnings per common share *(dollars)* | 0.18 | 0.59 |
| Common shares outstanding *(millions) (note 11)* | 256.3 | 256.3 |

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

| **Years Ended December 31**<br>*(millions of dollars)* | 2002 | 2001 |
|---|---|---|
| **Retained earnings, beginning of year** | 344 | 567 |
| Net income | 47 | 152 |
| Dividends | (134) | (375) |
| **Retained earnings, end of year** | 257 | 344 |

*See accompanying notes to the consolidated financial statements*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| **Years Ended December 31**<br>*(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| **Operating activities** | | |
| Net income | **47** | 152 |
| Adjust for non-cash items: | | |
| Depreciation and amortization | **752** | 810 |
| Deferred pension asset | **16** | 21 |
| Other post employment benefits | **55** | (13) |
| Future income taxes *(note 10)* | **(32)** | 131 |
| Provision for restructuring | **222** | 67 |
| Transition rate option contracts *(note 15)* | **144** | - |
| Gain on sale of investments | **(72)** | - |
| Gain on sale of decontrol fixed assets | **(99)** | - |
| Mark to market on energy contracts *(note 9)* | **2** | - |
| Earnings on nuclear waste management funds | **78** | 57 |
| Other | **91** | (4) |
| | **1,204** | 1,221 |
| Contributions to fixed asset removal and nuclear waste management fund | **(391)** | (427) |
| Expenditures on nuclear waste management | **(92)** | (56) |
| Market power mitigation agreement rebate payment *(note 16)* | **(335)** | - |
| Expenditures on restructuring *(note 14)* | **(134)** | - |
| Net changes to other long-term assets and liabilities | **117** | (67) |
| Changes in non-cash working capital balances *(note 22)* | **475** | (447) |
| **Cash flow provided by operating activities** | **844** | 224 |
| **Investing activities** | | |
| Proceeds from Bruce decontrol *(note 13)* | - | 370 |
| Net proceeds from short-term investments | **39** | 296 |
| Proceeds on sale of decontrol fixed assets *(note 13)* | **342** | 12 |
| Cash proceeds from sale of investments *(note 21)* | **83** | - |
| Purchases of fixed assets | **(869)** | (739) |
| **Cash flow used in investing activities** | **(405)** | (61) |
| **Financing activities** | | |
| Issuance of long-term debt *(note 6)* | **138** | - |
| Repayment of long-term debt | **(1)** | (203) |
| Dividends paid | **(134)** | (375) |
| Short-term notes issued | **446** | - |
| Short-term notes repaid | **(264)** | (150) |
| **Cash flow provided by (used in) financing activities** | **185** | (728) |
| **Net increase (decrease) in cash and cash equivalents** | **624** | (565) |
| **Cash and cash equivalents, beginning of year** | **-** | 565 |
| **Cash and cash equivalents, end of year** | **624** | - |

*See accompanying notes to the consolidated financial statements*

## CONSOLIDATED BALANCE SHEETS

| **As at December 31**<br>*(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | **624** | - |
| Short-term investments | - | 39 |
| Accounts receivable | **736** | 1,010 |
| Note receivable *(note 13)* | **225** | - |
| Income taxes recoverable | **80** | 77 |
| Fuel inventory | **514** | 537 |
| Materials and supplies | **80** | 35 |
| | **2,259** | 1,698 |
| **Fixed assets** *(note 4)* | | |
| Property, plant and equipment | **15,014** | 14,460 |
| Less: accumulated depreciation | **2,068** | 1,479 |
| | **12,946** | 12,981 |
| **Other long-term assets** | | |
| Deferred pension asset *(note 8)* | **305** | 330 |
| Nuclear fixed asset removal and nuclear waste management funds *(note 7)* | **1,599** | 1,208 |
| Long-term note receivable *(note 13)* | - | 225 |
| Materials and supplies | **193** | 179 |
| Long-term accounts receivable and other assets | **59** | 65 |
| | **2,156** | 2,007 |
| | **17,361** | 16,686 |

*See accompanying notes to the consolidated financial statements*

## CONSOLIDATED BALANCE SHEETS

| **As at December 31**<br>*(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued charges *(notes 14, 15)* | **1,235** | 1,505 |
| Market power mitigation agreement rebate payable *(note 16)* | **572** | - |
| Short-term notes payable | **182** | - |
| Deferred revenue due within one year | **12** | 13 |
| Long-term debt due within one year *(note 6)* | **5** | 205 |
| | **2,006** | 1,723 |
| **Long-term debt** *(note 6)* | **3,352** | 3,015 |
| **Other long-term liabilities** | | |
| Fixed asset removal and nuclear waste management *(note 7)* | **4,915** | 4,724 |
| Other post employment benefits *(note 8)* | **958** | 924 |
| Long-term accounts payable and accrued charges *(note 15)* | **321** | 336 |
| Deferred revenue *(note 13)* | **179** | 215 |
| Future income taxes *(note 10)* | **247** | 279 |
| | **6,620** | 6,478 |
| **Shareholder's equity** | | |
| Common shares *(note 11)* | **5,126** | 5,126 |
| Retained earnings | **257** | 344 |
| | **5,383** | 5,470 |
| | **17,361** | 16,686 |

Commitments and Contingencies *(note 12)*

*See accompanying notes to the consolidated financial statements*

On behalf of the Board of Directors:

Ron Osborne

William A. Farlinger
*Chairman*

Ronald W. Osborne
*President and Chief Executive Officer*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

## 1. DESCRIPTION OF BUSINESS

Ontario Power Generation Inc. was incorporated on December 1, 1998 pursuant to the Business Corporations Act (Ontario). As part of the reorganization of Ontario Hydro, under the *Electricity Act, 1998* and the related restructuring of the electricity industry in Ontario, Ontario Power Generation Inc. and its subsidiaries (collectively "OPG" or the "Company") purchased and assumed certain assets, liabilities, employees, rights and obligations of the electricity generation business of Ontario Hydro on April 1, 1999 and commenced operations on that date. Ontario Hydro has continued as Ontario Electricity Financial Corporation ("OEFC"), responsible for managing and retiring Ontario Hydro's outstanding debt and other obligations.

## 2. BASIS OF PRESENTATION

The consolidated financial statements of OPG have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of Ontario Power Generation Inc. and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant inter-company transactions have been eliminated on consolidation.

Certain of the 2001 comparative amounts have been reclassified from statements previously presented to conform to the 2002 financial statement presentation.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on deposit and money market securities with an original term to maturity less than 90 days on the date of purchase. All other money market securities with original terms to maturity on the date of purchase greater than 90 days, but less than one year, are recorded as short-term investments. These securities are valued at lower of cost or market.

Interest earned on cash and cash equivalents and short-term investments is offset against interest expense in the consolidated statements of income.

### Inventories

Fuel inventory is valued at the lower of average cost or net realizable value.

Materials and supplies are valued at the lower of average cost or net realizable value with the exception of critical replacement parts which are unique to nuclear and fossil generating stations. The cost of the critical replacement parts inventory is charged to operations on a straight-line basis over the remaining life of the related facilities and is classified in long-term assets.

### Fixed Assets and Depreciation

Property, plant and equipment are recorded at cost. Interest costs incurred during construction are capitalized as part of the cost of the asset based on the interest rate on OPG's long-term debt. Expenditures for replacements of major components are capitalized.

Depreciation rates for the various classes of assets are based on their estimated service lives. Any asset removal costs that have not been specifically provided for in current or previous periods are also charged to depreciation expense. Repairs and maintenance are expensed when incurred.

Fixed assets are depreciated on a straight-line basis except for computers, and transport and work equipment, which are depreciated on a declining balance basis as noted below:

| | |
|---|---|
| Nuclear generating stations | **25 and 40 years**[1] |
| Fossil generating stations | **40 to 50 years** |
| Hydroelectric generating stations | **100 years** |
| Administration and service facilities | **50 years** |
| Computers and transport and work equipment assets – declining balance | **9 to 40% per year** |
| Major application software | **7 years** |

[1] The nuclear stations are depreciated for accounting purposes over 25 years with the exception of Pickering A. The Pickering A station is depreciated over 40 years as a result of the completion, during the 1980s, of the retubing of the Pickering A station.

### Impairment of Fixed Assets

OPG evaluates its property, plant and equipment for impairment whenever conditions indicate that estimated future net cash flows may be less than the net carrying amount of assets. The difference, if any, is recognized as an impairment loss.

### Long-Term Portfolio Investments

Long-term portfolio investments are stated at cost and include the nuclear fixed asset removal and nuclear waste management funds. Gains and losses on long-term investments are recognized in other income when investments are sold.

### Market Power Mitigation Agreement Rebate

OPG is required under its generating licence to comply with prescribed market power mitigation measures to address the potential for OPG to exercise market power in Ontario. The market power mitigation measures include a rebate mechanism and the requirement to decontrol generating capacity. Under the rebate mechanism, for the first four years after the electricity market opened to competition on May 1, 2002 ("market opening"), a significant majority of OPG's expected energy sales in Ontario are subject to an average annual revenue cap of 3.8¢/kilowatt-hour ("kWh"). OPG is required to pay a rebate to the Independent Electricity Market Operator ("IMO") equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for a twelve month settlement period, multiplied by the amount of energy subject to the rebate mechanism. The first settlement period ends April 30, 2003. The quantities of energy subject to the rebate, as well as the hourly weights used to compute the annual average spot price for rebate purposes, have been fixed in advance but may be reduced by the Ontario Energy Board for decontrol transactions completed by OPG. At each balance sheet date, OPG computes the average spot energy price that prevailed since the beginning of the current settlement period and recognizes a liability if the average price exceeds 3.8¢/kWh, based on the amount of energy subject to the rebate.

### Fixed Asset Removal and Nuclear Waste Management

OPG recognizes a liability for fixed asset removal and nuclear waste management, taking into account the time value of money. OPG is able to estimate both the amount and timing of future cash expenditures based on current plans for fixed asset removal and nuclear waste management. On April 1, 1999, when OPG commenced operations, the following costs were recognized as a liability:

- The present value of the costs of dismantling the nuclear and fossil production facilities at the end of their useful lives.
- The present value of the fixed cost portion of any nuclear waste management programs that are required regardless of volume of waste generated.
- The present value of the variable cost portion of any nuclear waste management program to take into account actual waste volumes incurred up to April 1, 1999.

The liability for nuclear waste management is increased for waste generated each year with the corresponding amounts charged to operating expenses. Expenses relating to low and intermediate level waste are charged to depreciation and amortization expense. Expenses relating to the disposal of used fuel are charged to fuel expense. Changes in estimates of the liability are amortized over the average remaining service life of the nuclear generating stations.

OPG funds the nuclear fixed asset removal and nuclear waste management liability based on funding requirements prescribed under the Ontario Nuclear Funds Agreement ("ONFA"). This funding is segregated and used only for nuclear fixed asset removal or nuclear waste management.

Revalorization arises because liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis. The revalorization charge is the adjustment that results from restating the liabilities to reflect the effect of inflation on the cost estimates and the time value of money effect on the future liabilities. Revalorization is reported net of the earnings on the nuclear fixed asset removal and nuclear waste management funds and the interest improvement on the receivable from the OEFC. Revalorization is recorded in the consolidated financial statements as part of depreciation and amortization.

### Revenue Recognition

Commencing May 1, 2002, with the opening of the Ontario electricity market to competition, all of OPG's electricity generation is sold into the real-time energy spot market administered by the IMO. Revenue is recorded as electricity is generated and metered based on the spot market sales price, net of the market power mitigation agreement rebate and hedging activities. OPG also sells into, and purchases from, interconnected markets of other Provinces and the U.S. northeast and midwest. All contracts that are not designated as hedges are valued at market value. Gains and losses on energy trading contracts (including those to be physically settled) are disclosed on a net basis in the consolidated statements of income. Accordingly, power purchases of $91 million in 2002 and nil in 2001 were netted against revenue.

Prior to May 1, 2002, revenues were earned primarily through the sale of electricity to wholesale and large industrial customers in Ontario and to interconnected markets. The wholesale electricity prices charged to Ontario customers were billed on a bundled basis including transmission and other related charges. OPG received the bundled payments and distributed funds to the successor entities of Ontario Hydro under the terms of revenue allocation arrangements. The revenue allocation arrangements were designed so the undistributed balance of funds would provide OPG with planned revenue of 4.0¢/kWh based on forecasted energy demand and customer mix, together with a fixed amount for ancillary services.

OPG derives non-energy revenue under the terms of a lease arrangement with Bruce Power L.P. ("Bruce Power") related to the Bruce nuclear generating stations. This includes lease revenues, interest income and revenues for engineering analysis and design, technical and ancillary services. Non-energy revenue also includes isotope sales. Revenues from these activities are recognized as services are provided or products are delivered.

### Foreign Currency Translation

Current monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at year-end exchange rates. Any resulting gain or loss is reflected in other revenue.

### Derivatives

OPG is exposed to changes in electricity prices associated with an open wholesale spot market for electricity in Ontario. To hedge the commodity price risk exposure associated with changes in the wholesale price of electricity, OPG enters into various energy and related sales contracts. These contracts are expected to be effective as hedges of the commodity price exposure on OPG's generation portfolio. Gains or losses on hedging instruments are recognized in income over the term of the contract when the underlying hedged transactions occur. These gains or losses are included in generation revenue and are not recorded on the consolidated balance sheet. All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in Energy Marketing revenue as gains or losses.

OPG also uses derivative contracts to manage the Company's exposure to foreign currency movements. Foreign exchange translation gains and losses on these foreign currency denominated derivative contracts are recognized as an adjustment to the purchase price of the commodity or goods received.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such derivative instrument ceases to exist or be effective as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income.

### Emission Reduction Credits

OPG utilizes emission reduction credits ("ERCs") to manage emissions within the prescribed regulatory and voluntary limits. ERCs are purchased from trading partners in Canada and the United States. The cost of ERCs are held in inventory and charged to OPG's operations as part of fuel as required. Options to purchase ERCs are accounted for as derivatives and are valued at estimated market value.

### Research and Development

Research and development costs are charged to operations in the year incurred. Research and development costs incurred to discharge long-term obligations such as the nuclear waste management liabilities, for which specific provisions have already been made, are charged to the related liability.

### Pension and Other Post Employment Benefits

OPG's post employment benefit programs include a contributory defined benefit pension plan, group life insurance, health care and long-term disability benefits. OPG accrues its obligations under pension and other post employment benefit ("OPEB") plans. Pension fund assets are valued using market-related values for purposes of determining actuarial gains or losses. When the recognition of the transfer of employees and employee related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability. Pension and OPEB expenses and obligations are determined annually by independent actuaries using management's best estimates.

Pension and OPEB expenses include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments and changes in assumptions, that result in actuarial gains or losses. Past service costs arising from pension and OPEB plan amendments are amortized on a straight line basis over the expected average remaining service life of the employees covered by the plan. Due to the long-term nature of post-employment liabilities, the excess of the net cumulative unamortized gain or loss, over 10 per cent of the greater of the benefit obligation and the market-related value of the plan assets, is also amortized over the expected average remaining service life.

### Taxes

Under the *Electricity Act, 1998*, OPG is responsible for making payments in lieu of corporate income and capital taxes to the OEFC. These payments are calculated in accordance with the *Income Tax Act (Canada)* and the *Corporations Tax Act (Ontario)*, and are modified by regulations made under the *Electricity Act, 1998*. OPG makes payments in lieu of property tax on its nuclear and fossil generating assets to the OEFC, and also pays property taxes to municipalities.

OPG pays charges on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge ("GRC") includes a fixed percentage charge applied to the annual hydroelectric generation derived from stations located on provincial crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. GRC costs are included in fuel expense.

### Business Segments

Commencing May 1, 2002, upon the opening of the Ontario electricity market to competition, OPG began operating in two reportable business segments: Generation and Energy Marketing. Previously, OPG's energy marketing activity was not a reportable business segment. Accordingly, there are no comparative amounts for 2001. A separate category, Non-Energy and Other, includes revenue and costs which are not allocated to the two business segments.

### New Accounting Recommendations

*Hedging Relationships*

In December 2001, the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 13, "Hedging Relationships". This Guideline, which is required to be adopted for annual periods beginning after July 1, 2003, establishes standards for documenting and assessing the effectiveness of hedging activities. OPG expects to meet the hedging criteria in the new standard, and accordingly, to continue existing accounting for hedging relationships.

*Impairment of Long-Lived Assets*

The CICA approved a new standard "Impairment of Long-Lived Assets". The new standard provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets and is effective for years beginning on or after April 1, 2003. Impairments are to be recognized when the carrying amount exceeds the sum of undiscounted cash flows. The impairment recognized is the amount by which the carrying amount exceeds its fair value. Introduction of the new standard is not expected to have a material impact on OPG's consolidated financial position.

*Asset Retirement Obligations*

The CICA approved a new standard "Asset Retirement Obligations". The new standard provides guidance on the recognition and measurement of liabilities for legal obligations associated with the retirement of property, plant and equipment. The new standard is effective for fiscal years beginning on or after January 1, 2004. OPG is assessing the impact of adopting this standard.

## 4. FIXED ASSETS

Depreciation and amortization expense consists of the following:

| *(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| Depreciation and amortization | **585** | 578 |
| Revalorization | **184** | 198 |
| Nuclear waste management costs | **(17)** | 34 |
| | **752** | 810 |

Fixed assets consist of the following:

| *(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| Property, plant and equipment | | |
| Nuclear generating stations | **3,447** | 3,313 |
| Fossil generating stations | **1,791** | 1,671 |
| Hydroelectric generating stations | **7,601** | 7,754 |
| Other fixed assets | **925** | 770 |
| Construction in progress | **1,250** | 952 |
| | **15,014** | 14,460 |
| Less: accumulated depreciation | | |
| Generating stations | **1,726** | 1,227 |
| Other fixed assets | **342** | 252 |
| | **2,068** | 1,479 |
| | **12,946** | 12,981 |

Interest capitalized at 6 per cent (2001 - 6 per cent) during the year ended December 31, 2002 was $44 million (2001 - $29 million).

## 5. SHORT-TERM CREDIT FACILITIES

OPG maintains a $1,000 million revolving short-term committed credit facility with certain financial institutions ("Bank Credit Agreement") that makes funds available to OPG for working capital requirements, for general corporate purposes and as a back-stop facility for OPG's Commercial Paper ("CP") program. The facility may be drawn upon in either Canadian or U.S. dollars in various forms including Prime loans, LIBOR loans, Banker's Acceptances and Letters of Credit and has a term of 364 days which may be extended for an additional two year term. This facility is subject to renewal in March 2003. OPG's CP program is supported by the Bank Credit Agreement. Under the CP program, OPG has authority to issue short-term promissory notes up to a maximum outstanding principal amount of $1,000 million in Canadian currency or the equivalent thereof in U.S. currency. At December 31, 2002, OPG has $182 million outstanding under the CP program compared to nil outstanding as at December 31, 2001.

OPG also maintains $175 million of short-term uncommitted credit facilities that make funds available for collateral requirements under the retail electricity market rules, and other commitments in the form of Letters of Credit. Of this amount, $45 million was used for Letters of Credit posted with local distribution companies in support of OPG's obligations under the retailer consolidated billings of the retail settlement code, and $97 million was used for Letters of Credit in support of certain other long-term obligations.

## 6. LONG-TERM DEBT

### (a) Debt Outstanding

Long-term debt consists of the following:

| *(millions of dollars)* | 2002 | 2001 |
|---|---|---|
| Notes payable to the OEFC | **3,200** | 3,200 |
| Capital lease obligations | **19** | 20 |
| Share of limited partnership debt | **138** | - |
| | **3,357** | 3,220 |
| Less: payable within one year | | |
| Senior notes payable to the OEFC | **-** | 200 |
| Capital lease obligations | **5** | 5 |
| | **5** | 205 |
| Long-term debt | **3,352** | 3,015 |

Details of OPG's long-term notes outstanding to the OEFC as at December 31, 2002 are as follows:

| Year of Maturity | Interest Rate (%) | Principal Outstanding ($ Canadian) Senior Notes | Subordinated Notes | Total |
|---|---|---|---|---|
| 2003[1] | 5.49 | 200 | - | 200 |
| 2004[1] | 5.44 | 100 | - | 100 |
| 2004[1] | 5.62 | 300 | - | 300 |
| 2004[1] | 5.94 | 100 | - | 100 |
| 2005 | 5.71 | 300 | - | 300 |
| 2006 | 5.78 | 300 | - | 300 |
| 2007 | 5.85 | 400 | - | 400 |
| 2008 | 5.90 | 400 | - | 400 |
| 2009 | 6.01 | 350 | - | 350 |
| 2010 | 6.60 | - | 375 | 375 |
| 2011 | 6.65 | - | 375 | 375 |
| | | 2,450 | 750 | 3,200 |

[1] OPG reached an agreement with the OEFC in February 2003 to defer payment on $700 million principal amount of senior notes as outlined in note 6(b).

In March 2002, the Company reached an agreement with the OEFC to defer the payment of the $200 million principal amount of senior notes maturing in 2002 to December 2004. In connection with this deferral, the coupon rate on $100 million principal amount of these notes was increased, based on commercial terms, by 0.50 per cent; the interest rate for the remaining $100 million principal amount of these notes was unchanged.

Holders of the senior debt are entitled to receive, in full, amounts owing in respect of the senior debt before holders of the subordinated debt are entitled to receive any payments. The OEFC currently holds all of OPG's outstanding senior and subordinated notes.

In September 2002, Brighton Beach Power L.P. ("Brighton Beach"), a limited partnership formed by OPG, ATCO Power Canada Ltd., ATCO Resources Ltd. and Brighton Beach Power Ltd., completed a $403 million private bond and term debt financing for its 580 megawatt power project under construction in Windsor, Ontario. Brighton Beach also signed an energy conversion agreement with Coral Energy Canada Inc. to deliver natural gas to the plant and own, market and trade all the electricity produced. OPG proportionately consolidates its 50 per cent interest in the Brighton Beach partnership. As at December 31, 2002, $276 million was outstanding under the loan and accordingly $138 million is reported by OPG.

Interest paid during the year ended December 31, 2002 was $204 million (2001 - $202 million), of which $198 million relates to interest paid on long-term debt (2001 - $199 million).

### (b) Financing Agreement

In February 2003, the Company reached an agreement with the OEFC to defer payment on $700 million principal amount of senior notes. The interest rates remain unchanged. As a result of the deferral, $200 million of long-term debt due within one year was reclassified to long-term at December 31, 2002. The notes deferred and the new maturities are as follows:

| Principal Amount of Senior Notes *(millions of dollars)* | Maturity Prior to Deferral | New Maturity |
|---|---|---|
| 200 | 2003 | 2005 |
| 100 | 2004 | 2006 |
| 300 | 2004 | 2006 |
| 100 | 2004 | 2006 |

## 7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

OPG's nuclear generating stations produce nuclear waste in the form of radioactive nuclear fuel bundles as well as low and intermediate level radioactive waste. At the end of the operating life, each of the nuclear generating stations needs to be safely decommissioned, which includes a storage period followed by dismantling. OPG is also required to decommission its non-nuclear facilities.

The net liability for fixed asset removal and nuclear waste management on a present value basis consists of the following:

| *(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| Liability for nuclear waste management | **5,020** | 4,814 |
| Liability for nuclear fixed asset removal | **2,702** | 2,556 |
| | **7,722** | 7,370 |
| Liability for non-nuclear fixed asset removal | **131** | 127 |
| | **7,853** | 7,497 |
| Less: Receivable from the OEFC | **2,938** | 2,773 |
| Fixed asset removal and nuclear waste management | **4,915** | 4,724 |

The change in the fixed asset removal and nuclear waste management liability is as follows:

| *(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| Liability, beginning of year | **4,724** | 4,482 |
| Increase in the liability due to revalorization | **262** | 254 |
| Provision | **37** | 44 |
| Waste management expenditures | **(92)** | (56) |
| Amortization of net cost estimate changes | **(16)** | - |
| Liability, end of year | **4,915** | 4,724 |

The accrual of fixed asset removal and nuclear waste management costs requires significant assumptions in their calculations, since these programs run for several decades. Current plans include cash flow estimates to 2057 for decommissioning nuclear stations and to approximately 2100 for used fuel management. The discount rate used to calculate the present value of the liabilities at December 31, 2002 was 5.75 per cent (2001 - 5.75 per cent) and the cost escalation rates ranged from 1 per cent to 4 per cent (2001 - 2 per cent to 3 per cent). Under the terms of the lease agreement with Bruce Power, OPG continues to be responsible for the nuclear fixed asset removal and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

Significant assumptions underlying operational and technical factors are used in the calculation of the accrued liabilities and are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the programs or the technology employed, could result in significant changes to the value of the accrued liabilities. With programs of this duration and the evolving technology to handle the nuclear waste, there is a degree of risk surrounding the measurement of the costs for these programs, which may increase or decrease over time.

### Liability for Nuclear Waste Management Costs

The liability for nuclear waste management costs represents the cost of managing the highly radioactive used nuclear fuel bundles as well as the cost of managing other low and intermediate level radioactive wastes generated by the nuclear stations. The current assumptions that have been used to establish the accrued used fuel costs include: long-term management of the spent fuel bundles through deep geological disposal; an in-service date of 2035 for used nuclear fuel disposal facilities; and an average transportation distance of 1,000 kilometers between nuclear generating facilities and the disposal facilities. Alternatives to deep geological disposal are being studied by Canadian nuclear utilities as part of the options study required by the federal *Nuclear Fuel Waste Act*. The options study is to be completed by 2005, with a federal government decision expected no earlier than 2006.

The life cycle costs of low and intermediate level waste management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as the costs of ultimate long-term disposal of these wastes. The current assumptions used to establish the accrued low and intermediate level waste management costs include: an in-service date of 2015 for disposal facilities for low level waste; co-locating short-lived intermediate level waste with low level waste starting in 2015; and co-locating long lived intermediate level waste with used fuel starting in 2035.

### Liability for Nuclear Fixed Asset Removal Costs

Accrued nuclear fixed asset removal costs represent the estimated costs of decommissioning nuclear generating stations after the end of their service lives. The significant assumptions used in estimating future nuclear fixed asset removal costs include: decommissioning of nuclear generating stations on a deferred dismantlement basis where the reactors will remain shut down for a 30 year period prior to a 10 year dismantlement period. Low and intermediate level waste arising during decommissioning will be disposed of at the facilities developed for disposal of operational low and intermediate level waste.

### Liability for Non-Nuclear Fixed Asset Removal Costs

Accrued non-nuclear fixed asset removal costs are primarily the costs of decommissioning fossil generating stations and the heavy water production facility at the end of their service lives. The estimated retirement date of these stations is between 2005 to 2025.

OPG does not provide for the removal costs associated with its hydroelectric generating facilities as the costs cannot be reasonably estimated because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be used for the foreseeable future.

### Ontario Nuclear Funds Agreement

In March 2002, the Ontario Nuclear Funds Agreement ("ONFA") was finalized with the Province of Ontario (the "Province"). Under ONFA, OPG will establish two custodial funds, a Used Fuel Fund and a Decommissioning Fund, that will be held by an independent custodian. The Agreement will become effective when external investment managers are appointed and the two custodial funds are established, which is expected during 2003.

The Used Fuel Fund will be used to fund future costs of long-term nuclear used fuel waste management. OPG is responsible for the risk and liability for cost increases for used fuel waste management, subject to graduated liability thresholds specified in ONFA, which limit OPG's total financial exposure at approximately $6.0 billion, a present value amount at January 1, 1999 (approximately $7.5 billion in 2002 dollars). OPG will continue to make annual payments over the life of its nuclear generating stations, as specified in ONFA. The Province guarantees the fund a return of 3.25 per cent over Ontario Consumer Price Index ("CPI"). If the earnings on assets in the Used Fuel Fund exceed Ontario CPI plus 3.25 per cent, the Province is entitled to the excess.

The Decommissioning Fund will be used to fund the future cost of nuclear fixed asset removal and long-term low and intermediate level waste management and a portion of used fuel storage costs after station life. The initial funding, including the commitment from the OEFC, is intended to be sufficient to fully discharge the 1999 estimate of the liability. OPG may direct up to 50 per cent of fund surpluses to the Used Fuel Fund. The OEFC is entitled to the remaining 50 per cent of fund surpluses. While OPG does not expect to be required to make additional contributions, it bears the risk and liability for cost estimate increases and fund earnings.

On April 1, 1999, the Province agreed that the Province or its agent, now designated as the OEFC, would fund certain fixed asset removal and nuclear waste management liabilities that were incurred prior to April 1, 1999. The balance of $2,938 million as at December 31, 2002 represents the OEFC's liability of $2,773 million as at January 1, 2002, as well as interest in the amount of $165 million accrued during 2002 based on the estimated Annual Ontario CPI plus 3.25 per cent.

Since April 1, 1999, OPG has contributed $1,599 million, including income earned of $174 million, to its existing nuclear fixed asset removal and nuclear waste management segregated funds. The Decommissioning Fund will be partially funded through the commitment from the OEFC, with the balance funded through OPG's existing segregated funds. The remaining balance in OPG's segregated funds will be applied to the

Used Fuel Fund. OPG will make future annual contributions to the Used Fuel Fund of approximately $454 million to 2008, and a reduced amount over the remaining life of the nuclear generating stations.

As required by the *Nuclear Safety and Control Act (Canada)*, and under the terms of ONFA, the Province will provide to the Canadian Nuclear Safety Commission ("CNSC") a guarantee that there will be funds available to discharge the nuclear decommissioning and waste liabilities. The provincial guarantee will supplement the Used Fuel Fund and the Decommissioning Fund until they have accumulated sufficient funds to cover the accumulated liability for nuclear waste management and decommissioning. Legal agreements detailing the provision of required CNSC financial guarantees are under development with the CNSC and the Province.

The *Nuclear Fuel Waste Act (Canada)* ("NFWA") was proclaimed into force in November 2002. In accordance with NFWA, the Nuclear Waste Management Organization was formed during 2002 to prepare and review alternatives, and provide recommendations for long-term management of nuclear fuel waste. This submission is to occur within three years of NFWA coming into force. The Federal Government will determine the strategy for dealing with the long-term management of nuclear fuel waste based on submitted plans. OPG made an initial deposit of $500 million into a trust fund in November 2002 as required under NFWA and will deposit an additional $100 million annually for the next three years until the Federal Government has approved a long-term plan. The initial deposit was funded by a transfer from OPG's nuclear fixed asset removal and nuclear waste management fund. The trust is consolidated by OPG and forms part of the Used Fuel Fund.

The fixed asset removal and nuclear waste management funds consist of the following:

| *(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| Nuclear fixed asset removal and nuclear waste management funds | **1,098** | 1,208 |
| Nuclear used fuel trust fund | **501** | - |
| | **1,599** | 1,208 |

Interest earned of $78 million during 2002 (2001 - $57 million) is included in the segregated funds and is recorded as a component of revalorization, which is included in depreciation and amortization expense.

### Cost Estimate Changes Made in 2002

OPG reviewed the significant assumptions that underlie the calculation of the accrued liabilities for fixed asset removal and nuclear waste management liabilities. As a result of this review, a number of assumptions were revised to reflect changes in the timing of certain programs and in the evolving technology used to handle the nuclear waste. These changes included a delay in the in-service date for used nuclear fuel disposal facilities from 2025 to 2035, the recognition of certain costs associated with dry storage of used nuclear fuel during station operating life, and recognition of additional costs related to nuclear waste management programs. In aggregate, these cost estimate changes would result in a net reduction to the nuclear waste management and decommissioning liability of $215 million. In accordance with Canadian generally accepted accounting principles, the change in liability is being amortized over the average remaining service life of the nuclear generating stations. As a result of this change, $16 million was recorded as a decrease to the liability and a reduction to expenses for the year ended December 31, 2002.

### 8. BENEFIT PLANS

The post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses.

#### Pension Plan

The pension plan is a contributory, defined benefit plan covering all regular employees and retirees. OPG's pension plan was established effective December 31, 1999. In 2001, the transfer of the pension plan assets that were previously held by the OEFC was approved by the Financial Services Commission of Ontario under the Pension Benefits Act (Ontario). In June 2001, the pension plan assets were transferred to OPG's pension plan.

Pension fund assets include equity securities and corporate and government debt securities, real estate and other investments which are managed by professional investment managers. The fund does not invest in equity or debt securities issued by OPG.

Information about OPG's pension plan is as follows:

| | **2002** | 2001 |
|---|---|---|
| **Pension Plan Assumptions** | | |
| Expected return on plan assets | **7.25%** | 7.75% |
| Rate used to discount future pension benefits | **6.75%** | 6.75% |
| Salary schedule escalation rate | **3.00%** | 3.25% |
| Rate of cost of living increase to pensions | **2.00%** | 2.50% |
| Average remaining service life for employees (years) | **11** | 11 |

| *(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| **Change in Pension Plan Assets** | | |
| Fair value of plan assets at beginning of year | **6,342** | 7,642 |
| Contributions by employees | **78** | 20 |
| Actual return on plan assets | **(243)** | (11) |
| Settlements | **(142)** | (1,080) |
| Benefit payments | **(294)** | (219) |
| Administrative expense | **(14)** | (10) |
| Fair value of plan assets at end of year | **5,727** | 6,342 |
| **Change in Projected Pension Benefit Obligation** | | |
| Projected benefit obligation at beginning of year | **5,995** | 6,216 |
| Current service costs | **185** | 192 |
| Past service costs | **-** | 87 |
| Interest on projected benefit obligation | **381** | 393 |
| Curtailment (gain) loss | **(28)** | 80 |
| Settlement gain | **(124)** | (896) |
| Benefit payments | **(294)** | (219) |
| Net actuarial (gain) loss | **(150)** | 142 |
| Projected benefit obligation at end of year | **5,965** | 5,995 |
| **Pension Plan (Deficit) Surplus** | **(238)** | 347 |
| **Reconciliation of Pension Plan (Deficit) Surplus** | | |
| Pension plan (deficit) surplus | **(238)** | 347 |
| Unamortized net actuarial loss (gain) | **388** | (199) |
| Unamortized past service costs | **155** | 182 |
| Deferred pension asset | **305** | 330 |
| **Components of Pension Expense** | | |
| Current service costs | **107** | 172 |
| Interest on projected benefit obligation | **381** | 393 |
| Expected return on plan assets | **(471)** | (523) |
| Curtailment loss | **10** | 25 |
| Settlement loss | **5** | 8 |
| Amortization of past service costs | **18** | 19 |
| Amortization of net actuarial gain | **(34)** | (27) |
| Pension expense | **16** | 67 |

Using a going-concern funding basis, with assets at market value, OPG estimates that there was a pension fund deficit of $1.6 billion at December 31, 2002.

### Other Post Employment Benefits

The long-term annual increase in the per capita cost of the major benefits ranges between 2.0 per cent and 4.5 per cent (2001 - between 2.5 per cent and 4.5 per cent), depending on the nature of the benefit. The discount rate used in determining the actuarial present value of the OPEB obligation ranges between 6.00 per cent and 6.75 per cent at December 31, 2002 (2001 - between 6.25 per cent and 6.75 per cent). Information about OPG's OPEB is as follows:

| *(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| **Change in Projected OPEB Obligation** | | |
| Projected OPEB obligation at beginning of year | **1,247** | 1,207 |
| Current service costs | **45** | 51 |
| Interest on projected benefit obligation | **76** | 82 |
| Benefit payments | **(52)** | (56) |
| Curtailment loss (gain) | **2** | (1) |
| Settlement gain | **(134)** | (138) |
| Net actuarial loss | **7** | 91 |
| Past service costs | **-** | 11 |
| Special termination benefits | **13** | - |
| Projected OPEB obligation at end of year | **1,204** | 1,247 |
| **Reconciliation of OPEB Obligation** | | |
| Accrued OPEB obligation at end of year | | |
| Long-term obligation | **958** | 924 |
| Short-term obligation | **54** | 126 |
| Unamortized net actuarial loss | **161** | 160 |
| Unamortized past service costs | **31** | 37 |
| Projected OPEB obligation at end of year | **1,204** | 1,247 |
| **Components of OPEB Expense** | | |
| Current service costs | **45** | 51 |
| Interest on projected benefit obligation | **76** | 82 |
| Curtailment loss | **4** | 6 |
| Settlement gain | **(66)** | - |
| Amortization of net actuarial loss | **4** | 1 |
| Amortization of past service costs | **4** | 5 |
| Special termination benefits | **13** | - |
| OPEB expense | **80** | 145 |

## 9. FAIR VALUE OF FINANCIAL INSTRUMENTS, CREDIT RISK, AND RISK MANAGEMENT INSTRUMENTS

### Fair Value of Derivative Instruments

Fair values of derivative instruments have been estimated by reference to quoted market prices for actual or similar instruments where available. Where quoted market prices are not available, OPG considers various factors to estimate forward prices, including market prices and price volatility in neighbouring electricity markets, market prices for fuel, and other factors.

Since November 2002, trading activities and liquidity in the Ontario electricity market have been limited as companies are generally entering only into short-term contracts. Forward pricing information for contracts trading beyond March 2003 may not accurately represent the cost to enter into these contracts. For Ontario based contracts that are not treated as hedges, OPG established liquidity reserves against the fair market value of the assets and liabilities equal to the gain or loss on these contracts. The charge to establish these reserves reduced Energy Marketing revenue by approximately $7 million. Contracts outside of Ontario continue to be carried on the balance sheet as assets or liabilities at fair value with changes in fair value recorded in Energy Marketing revenue as gains or losses.

*Derivative instruments used for hedging purposes*

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized over the term of the contract when the underlying transactions occur. The Company uses financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| *(millions of dollars)* | **Notional quantity** | **Terms** | **Fair Value** | Notional quantity | Terms | Fair Value |
| gain/(loss) | | | | | | |
| Electricity derivative instruments | **37.9 TWh** | **1-4 yrs** | **(144)** | 14 TWh | 1-5 yrs | - |
| Foreign exchange derivative instruments | **$179 US** | **Apr/03** | **4** | $147 US | Mar/02 | 3 |
| Option to purchase emission reduction credits | **6,000,000 tonnes** | **2003-2004** | **1** | - | - | - |

Foreign exchange derivative instruments are used to hedge exposure to anticipated U.S. dollar denominated purchases. The weighted average fixed exchange rate for the outstanding contracts at December 31, 2002 was U.S. $0.64 for every Canadian dollar.

*Derivative instruments not used for hedging purposes*

The carrying amount (fair value) of derivative instruments not used for hedging purposes is as follows:

| | 2002 | | 2001 |
|---|---|---|---|
| *(millions of dollars)* | **Notional quantity** | **Fair Value** | Fair Value |
| Commodity derivative instruments | | | |
| Assets | **15.8 TWh** | **10** | - |
| Liabilities | **.5 TWh** | **(14)** | - |
| | | **(4)** | - |
| Ontario market liquidity reserve | | **(7)** | - |
| Total | | **(11)** | - |

At December 31, 2002, the fair value of commodity derivative instruments not used for hedging purposes includes a $9 million liability primarily related to legacy contracts from the previous market structure. The income statement impact of these transactions was reduced by the reversal, upon market opening, of a contract loss provision recorded as at December 31, 2001.

### Fair Value of Other Financial Instruments

The carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued charges, short-term notes payable, and long-term debt due within one year approximates their fair value due to the immediate or short-term maturity of these financial instruments. Fair values for other financial instruments have been estimated by reference to quoted market prices for actual or similar instruments where available. The carrying values and fair values of these other financial instruments are as follows:

| | 2002 | | 2001 | |
|---|---|---|---|---|
| *(millions of dollars)* | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial Assets** | | | | |
| Fixed asset removal and nuclear waste management fund | **1,599** | **1,622** | 1,208 | 1,263 |
| Long-term note receivable | - | - | 225 | 268 |
| Long-term accounts receivable and other assets | **59** | **59** | 65 | 65 |
| **Financial Liabilities** | | | | |
| Long-term debt and long-term portion of capital leases | **3,352** | **3,381** | 3,015 | 2,982 |
| Long-term accounts payable and accrued charges | **321** | **326** | 336 | 346 |

### Credit Risk

The majority of OPG's revenues are derived from electricity sales through the IMO administered spot market. OPG also derives revenue from several other sources including the sale of financial risk management products to third parties. OPG manages counterparty credit risk by monitoring and limiting its exposure to counter parties with lower credit ratings, evaluating its counterparty credit exposure on an integrated basis, and by performing periodic reviews of the creditworthiness of all counterparties, including obtaining credit security for all transactions beyond approved limits.

## 10. INCOME TAXES

A reconciliation between the statutory and the effective rate of income taxes is as follows:

| *(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| Income before income taxes | **44** | 218 |
| Combined Canadian federal and provincial statutory income tax rates, including surtax | **38.6%** | 41.3% |
| Statutory income tax rates applied to accounting income | **17** | 90 |
| Increase (decrease) in income taxes resulting from: | | |
| Large corporations tax in excess of surtax | **29** | 33 |
| Lower future tax rate on temporary differences | **4** | (23) |
| Non-taxable income items | **(27)** | (12) |
| Adjustment to prior year's future income tax | **(18)** | (23) |
| Other | **(8)** | 1 |
| | **(20)** | (24) |
| Provision for (recovery of) income taxes | **(3)** | 66 |
| Effective rate of income taxes | **(6.8%)** | 30.3% |

Significant components of the provision for income tax expense (recovery) are presented in the table below:

| *(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| Current income tax expense (recovery) | **29** | (65) |
| Future income tax expense (benefits): | | |
| Change in temporary differences | **(32)** | 177 |
| Substantively enacted changes in income tax rates | - | (46) |
| Provision for (recovery of) income taxes | **(3)** | 66 |

The amount of income taxes paid in the year ended December 31, 2002 was $56 million (2001 - $207 million).

The income tax effects of temporary differences that give rise to future income tax assets and income tax liabilities are presented in the table below:

| *(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| Future income tax assets: | | |
| Fixed asset removal and nuclear waste management liabilities | **1,446** | 1,388 |
| Other liabilities | **381** | 297 |
| | **1,827** | 1,685 |
| Future income tax liabilities: | | |
| Fixed assets | **1,389** | 1,393 |
| Fixed asset removal and nuclear waste management fund | **481** | 364 |
| Other assets | **204** | 207 |
| | **2,074** | 1,964 |
| Net future income tax liabilities | **247** | 279 |

## 11. COMMON SHARES

As at December 31, 2002 and 2001, OPG had 256,300,010 common shares issued and outstanding at a stated value of $5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value.

## 12. COMMITMENTS AND CONTINGENCIES

### Litigation

Various claims, lawsuits and administrative proceedings are pending or threatened against the Company or its subsidiaries, covering a wide range of matters that arise in the ordinary course of its business activities with respect to commercial and environmental matters. Each of these matters is subject to various uncertainties, and some of these matters may be resolved unfavourably with respect to the Company. These contingencies are provided for when they are likely to occur and are reasonably estimable. Management believes that the ultimate resolution of these matters will not have a material effect on the Company's financial position.

*Canadian Agra Corporation Claim*

The Canadian Agra Group has commenced an action based on alleged misrepresentations and breach of contract relating to the operation and development of the Bruce Energy Centre by Ontario Hydro and OPG. The Province is also a co-defendant. The claim is for $146.5 million plus damages for loss of profits. OPG has submitted a demand for particulars and the parties have agreed to attend a mediation after full particulars of the claim and alleged damages have been provided. A preliminary assessment indicates that it is unlikely that OPG would be found liable by a court if this matter proceeded to trial.

*Integrated Energy Development Corporation Claim*

The Integrated Energy Development Corporation claim is for $60 million and raises some similar allegations to the Canadian Agra claim, however, the Province has not been made a defendant. A mediation occurred in November, 2002 but the parties were unable to settle the claim. Examinations for discovery started in December 2002. A preliminary assessment indicates that it is unlikely that OPG would be found liable by a court if this matter proceeded to trial.

*Slate Falls First Nation Claim*

The Slate Falls First Nation claim is for $40 million. The First Nation has commenced an action in the Ontario Court for declaratory relief and unspecified damages for interference with reserve and traditional land rights from flooding and other acts of trespass. The Government of Canada is also a defendant to this claim. The First Nation is composed of former members of a number of different bands including Osnaburgh. Ontario Hydro had previously entered into a settlement agreement with the Mishkeegogamang First Nation, which was previously known as the Osnaburgh First Nation. Both the Government of Canada and OPG are considering the potential overlap of beneficiaries between the present litigation and the prior settlement. The parties are in the preliminary stage of gathering documentary evidence to assist in the assessment of liability and potential damages, and therefore are unable to evaluate the claim at this time.

**Environmental**

OPG inherited legacy environmental obligations from Ontario Hydro. A provision of $76 million was established as at April 1, 1999 for such obligations. During the year ended December 31, 2002, expenditures of $2 million (2001 - $3 million) were recorded against the provision.

Current operations are subject to regulation with respect to air, soil and water quality and other environmental matters by federal, provincial and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its financial statements to meet OPG's current environmental obligations.

OPG has undertaken an initiative to install selective catalytic reduction ("SCR") technology on two units at each of the Nanticoke and Lambton fossil generating stations, at an estimated cost of $285 million. The SCRs are scheduled to be in service by the end of 2003 and will reduce 80 per cent of all nitrogen oxide emissions from these four units.

**Guarantees**

As part of normal business, OPG and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees, stand-by letters of credit and surety bonds. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes.

OPG has provided limited guarantees in connection with the Brighton Beach financing. If the partnership fails to complete the project or meet certain performance tests by September 30, 2006, OPG may be required to repurchase its proportionate share of the outstanding debt, up to a total of $202 million. OPG is also responsible for contributing its share of equity up to $47 million and up to $13 million of cost overruns as necessary. OPG has also provided guarantees relating to gas transport and other energy-based charges if the commercial operations date is delayed in certain circumstances; and debt service if the energy conversion agreement is terminated, from the date of such termination to the earlier of the entry into a replacement agreement and September 30, 2006.

**Contractual Commitments**

The Company's contractual obligations and other commercial commitments as at December 31, 2002 are as follows:

| *(millions of dollars)* | 2003 | 2004 | 2005 | 2006 | 2007 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Fuel supply agreements | 850 | 488 | 243 | 209 | 147 | 201 | 2,138 |
| Contributions under ONFA | 679 | 454 | 454 | 454 | 454 | 2,557 | 5,052 |
| Long-term debt | - | - | 500 | 800 | 400 | 1,500 | 3,200 |
| Unconditional purchase obligations | 171 | 168 | 144 | 134 | 133 | 393 | 1,143 |
| Long-term accounts payable | 22 | 28 | 28 | 28 | 25 | - | 131 |
| Operating lease obligations | 21 | 19 | 18 | 10 | 10 | 67 | 145 |
| Capital lease obligations | 5 | 7 | 7 | - | - | - | 19 |
| Total | 1,748 | 1,164 | 1,394 | 1,635 | 1,169 | 4,718 | 11,828 |

## 13. DECONTROL INITIATIVES

### (a) Bruce Nuclear Generating Stations

In May 2001, the Company leased its Bruce A and Bruce B nuclear generating stations to Bruce Power until 2018, with an option to renew for up to 25 years. As part of the initial payment, OPG received $370 million in cash proceeds and a $225 million note receivable. Under the terms of the original operating lease agreement, the receivable of $225 million was payable to OPG in two installments of $112.5 million no later than four and six years from the date the transaction was completed. Proceeds from the note will be applied against OPG's funding requirements with respect to the nuclear fixed asset removal and nuclear waste management liabilities.

Under the terms of the lease, OPG agreed to transfer certain fuel and material inventory to Bruce Power, in addition to certain fixed assets. OPG also agreed to transfer pension assets and liabilities related to the approximately 3,000 employees who transferred from OPG to Bruce Power. Bruce Power assumed the liability for other post employment benefits for these employees. OPG makes payments to Bruce Power, in respect of other post employment benefits, of approximately $2.3 million per month over a 72-month period, ending in 2008.

As part of the closing, OPG recorded $230 million of deferred revenue to reflect the initial payment less net assets transferred to Bruce Power under the lease agreement. In 2002, deferred revenue was reduced by $29 million to reflect the settlement of certain remaining outstanding matters and post-closing adjustments. The deferred revenue is being amortized over the initial lease term of approximately 18 years and is recorded as non-energy revenue.

Under the lease agreement, OPG receives annual lease payments from Bruce Power. The lease payments consist of base rent payments set out in a specified schedule and supplemental rent of $25.5 million per operating unit. The supplemental lease payment structure has been modified, with effect from May 2001, to replace the original net revenue-sharing arrangement. The lease revenue of $178 million (2001 - $77 million) was recorded in non-energy revenue.

The net book value of fixed assets on lease to Bruce Power was $780 million and $884 million at December 31, 2002 and 2001, respectively.

### (b) Bruce Power - Change in Ownership

In December 2002, British Energy plc. entered into an agreement to dispose of its entire 82.4 per cent interest in Bruce Power. On February 14, 2003 the transaction was completed and a consortium of Canadian companies assumed the lease of the Bruce A and Bruce B nuclear generating stations that were formerly held by British Energy. The Bruce facilities will continue to be operated by Bruce Power. Upon closing, the $225 million note receivable was repaid, and lease payments commenced to be paid monthly. In addition, for 2004 through 2008, minimum payments under the lease are, subject to limited exceptions, $190 million. The remaining terms of the operating lease agreement remain substantially unchanged.

### (c) Other Decontrol Activities

In May 2002, OPG sold four hydroelectric generating stations located on the Mississagi River, to Mississagi Power Trust. OPG received cash proceeds of $342 million from the sale and recorded a pretax gain of $99 million.

OPG continues to evaluate options for decontrol of stations and is committed to meet its obligations under the market power mitigation agreement. The process for meeting decontrol of price-setting generation has been impacted by current market conditions in the North American energy sector. The amounts that OPG will ultimately realize with respect to these potential transactions could differ materially from the carrying values recorded in the consolidated financial statements.

## 14. RESTRUCTURING

In 2001, OPG approved a restructuring plan designed to improve OPG's future competitiveness. The restructuring program relates to an anticipated reduction in the workforce of approximately 2,000 employees over a two to three year period. Restructuring charges included severance costs of $254 million and related pension and other post employment benefit expenses of $35 million. Pension and other post employment benefit expenses, recorded as part of restructuring, are included in the deferred pension asset and other post employment benefits on the balance sheet. The total cost of the restructuring plan is expected to be approximately $400 million.

The change in the restructuring liability for the years ended December 31, 2002 and 2001 is as follows:

| *(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| Liability, beginning of year | **67** | - |
| Restructuring charges | **222** | 67 |
| Payments | **(134)** | - |
| Liability, end of year | **155** | 67 |

## 15. TRANSITION RATE OPTION CONTRACTS

Under a regulation known as Transition - Generation Corporation Designated Rate Options ("TRO"), OPG is required to provide transitional price relief upon market opening to certain power customers based on the consumption and average price paid by each customer during a reference period from July 1, 1999 to June 30, 2000. The TRO is treated as a hedge of generation revenue. The maximum anticipated volume subject to the transitional price relief is approximately 5.4 TWh in the first year after market opening, 3.6 TWh in the second year and 1.8 TWh in each of the third and fourth years. The maximum length of the program is four years, with the possibility that it will expire after only two years if certain decontrol targets are met.

A provision of $210 million for the TRO contracts was recorded in the first quarter of 2002 related to the anticipated future losses on these contracts. The provision was determined during the first quarter of 2002 using management's best estimates of the forward price curve for electricity, wholesale electricity market fees, impact of decontrol on the contracts, interruptions of volume, and the recovery of market power mitigation agreement rebates. It is reasonably possible that actual results experienced may differ materially from the estimated amounts. The provision will be reduced over the term of the contracts based on volume and will be recorded in revenue.

Since market opening on May 1, 2002, the provision has been reduced by $66 million. At December 31, 2002, the current portion of the provision for loss on these contracts was $82 million and was included in accounts payable and accrued charges. The long-term portion of the provision, which was included in long-term accounts payable and accrued charges, was $62 million.

## 16. MARKET POWER MITIGATION AGREEMENT REBATE

Under OPG's generating licence, subject to regulatory approval, the Company has the ability to reduce the amount of energy subject to the market power mitigation agreement rebate by the transfer of effective control of certain of its generating facilities to other market participants. As OPG transfers effective control of facilities and meets certain milestones, it can apply to the Ontario Energy Board for an order determining that the transactions represent the transfer of effective control and thereby eliminate a portion of the market power mitigation agreement rebate obligation.

In May 2001, OPG completed the agreement to lease its Bruce nuclear generating stations to Bruce Power and in May 2002, completed the sale of four of its hydroelectric generating stations located on the Mississagi River to Mississagi Power Trust. OPG has filed applications with the OEB seeking reductions in the amount of energy sales subject to the rebate mechanism ("Q relief") as a result of the decontrol of the Bruce nuclear generating stations and the Mississagi River stations. While there is no assurance as to the outcome of the OEB decision, the Company believes that it has met all of the requirements for the transfer of effective control and therefore will receive a reduction in energy sales subject to the market power mitigation agreement rebate. OEB approval of the applications would result in a reduction in volumes subject to the market power mitigation agreement rebate for the twelve month settlement period ending April 30, 2003 from 101.8 TWh to 81.4 TWh.

Since the average hourly spot price since May 1, 2002 has exceeded the 3.8¢/kWh revenue cap, OPG provided a market power mitigation agreement rebate liability for the period through December 31, 2002 of $907 million. The liability is calculated as the excess of the average hourly spot energy price over 3.8¢/kWh, multiplied by the amount of energy subject to the rebate mechanism. OPG made a rebate payment of $335 million in December 2002 which reduced the balance of the rebate payable at December 31, 2002 to $572 million. The rebate liability is calculated in accordance with the market power mitigation agreement, after taking into account the amount of energy sales subject to the rebate mechanism for only those generating stations that OPG continues to control.

OPG expects to receive a decision from the OEB regarding the Q relief during the second quarter of 2003. If OPG's applications are not approved, pre-tax income in the period in which the determination is made would be decreased by the amount of the Q relief, which totalled $182 million at December 31, 2002. Also, the Company must obtain OEB approval of Q relief before the end of the first settlement period ending April 30, 2003, as a condition of OPG's generation licence, in order to qualify for Q relief during that period.

## 17. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2002, $39 million (2001 - $39 million) of research and development expenses were charged to operations. No development costs were capitalized in 2002 (2001 - $3 million).

## 18. BUSINESS SEGMENTS

### Description of Reportable Segments

With the opening of Ontario's electricity market to competition on May 1, 2002, OPG began operating two reportable business segments: Generation and Energy Marketing. A separate category, Non-Energy and Other, includes revenue and certain costs which are not allocated to the business segments.

### Generation Segment

OPG's principal business segment operates in Ontario, generating and selling electricity. Commencing May 1, 2002, all of OPG's electricity generation is sold into the IMO-administered real-time energy spot market. As such, the majority of OPG's revenue is derived from spot market sales. In addition to revenue earned from spot market sales, revenue is also earned through offering available capacity as operating reserve and through the supply of other ancillary services including voltage control/reactive support, black start capability and automatic generation control. Prior to market opening, OPG sold electricity directly to wholesale electricity customers in Ontario and to interconnected markets in Quebec, Manitoba and the U.S. northeast and midwest.

### Energy Marketing Segment

The Energy Marketing segment derives revenues from various financial and physical energy market transactions with large volume end-use customers and intermediaries such as utilities, brokers, aggregators, traders and other power marketers and retailers. Energy marketing in deregulated markets includes trading, the sale of financial risk management products and sales of energy-related products and services to meet customers' needs for energy solutions. The results of transactions in derivatives not designated as hedges of energy prices are included in the Energy Marketing segment. OPG also markets and sells electricity purchased from the IMO into the interconnected markets of other provinces and the U.S. northeast and midwest. Prior to market opening on May 1, 2002, OPG's energy marketing activity was not a reportable business segment. Accordingly, there are no comparative values for 2001.

### Non-Energy and Other

OPG derives non-energy revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. This includes lease revenue, interest income and revenue from engineering analysis and design, technical and ancillary services. Non-energy revenue also includes isotope sales to the medical industry and real estate rentals.

| **Segment Income for year ended December 31, 2002** *(millions of dollars)* | **Generation** | **Energy Marketing** | **Non-Energy and Other** | **Total** |
|---|---|---|---|---|
| Revenues | 5,364 | 59 | 323 | 5,746 |
| Fuel | 1,610 | - | - | 1,610 |
| Power purchased | 290 | - | - | 290 |
| Gross margin | 3,464 | 59 | 323 | 3,846 |
| Operations, maintenance and administration | 2,463 | 6 | 55 | 2,524 |
| Depreciation and amortization | 645 | - | 107 | 752 |
| Property and capital taxes | 101 | - | 14 | 115 |
| Loss on transition rate option contracts | - | - | 210 | 210 |
| Operating income (loss) before restructuring | 255 | 53 | (63) | 245 |
| Restructuring | - | - | 222 | 222 |
| Operating income (loss) | 255 | 53 | (285) | 23 |
| Other income | - | - | 171 | 171 |
| Net interest expense | - | - | 150 | 150 |
| Income (loss) before income taxes | 255 | 53 | (264) | 44 |

| **Segment Income for year ended December 31, 2001** *(millions of dollars)* | **Generation** | **Energy Marketing** | **Non-Energy and Other** | **Total** |
|---|---|---|---|---|
| Revenues | 5,945 | - | 294 | 6,239 |
| Fuel | 1,453 | - | - | 1,453 |
| Power purchased | 879 | - | - | 879 |
| Gross margin | 3,613 | - | 294 | 3,907 |
| Operations, maintenance and administration | 2,475 | - | 84 | 2,559 |
| Depreciation and amortization | 746 | - | 64 | 810 |
| Property and capital taxes | 97 | - | 17 | 114 |
| Operating income before restructuring | 295 | - | 129 | 424 |
| Restructuring | - | - | 67 | 67 |
| Operating income | 295 | - | 62 | 357 |
| Other income | - | - | - | - |
| Net interest expense | - | - | 139 | 139 |
| Income (loss) before income taxes | 295 | - | (77) | 218 |

| **Selected Balance Sheet Information** *(millions of dollars)* | **Generation** | **Energy Marketing** | **Non-Energy and Other** | **Total** |
|---|---|---|---|---|
| **December 31, 2002** | | | | |
| Segment property, plant and equipment, net | **12,003** | - | **943** | **12,946** |
| **December 31, 2001** | | | | |
| Segment property, plant and equipment, net | 12,026 | - | 955 | 12,981 |

| **Selected Cash Flow Information** *(millions of dollars)* | | | | |
|---|---|---|---|---|
| **Year ended December 31, 2002** | | | | |
| Capital expenditures | **869** | - | - | **869** |
| **Year ended December 31, 2001** | | | | |
| Capital expenditures | 739 | - | - | 739 |

Substantially all sales were in Canada. Since the market opened in May 2002, all of OPG's electricity generation was sold into the real-time energy spot market administered by the IMO. As such, the majority of OPG's revenue was derived from spot market sales. Sales to the IMO represented 70 per cent of total revenues for the year ended December 31, 2002 (2001 - nil) and 75 per cent of accounts receivable as at December 31, 2002 (2001 - nil).

## 19. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the IMO, the OEFC, and the Ontario Electricity Pension Services Corporation ("OEPSC"), which previously managed the pension fund on behalf of OPG. OPG also enters into related party transactions with its joint ventures and equity-owned investments that are subject to significant influence. The transactions between OPG and related parties are in the normal course of business under normal trade terms. These transactions are summarized below:

| | 2002 | | 2001 | |
|---|---|---|---|---|
| *(millions of dollars)* | **Revenues** | **Expenses** | Revenues | Expenses |
| Hydro One | | | | |
| Electricity sales | **742** | - | 1,146 | - |
| Services | **3** | **13** | 8 | 36 |
| Province of Ontario | | | | |
| Gross revenue charge/water rentals | - | **116** | - | 109 |
| OEFC | | | | |
| Gross revenue charge/property tax | - | **237** | - | 194 |
| Interest on long-term notes | - | **192** | - | 196 |
| Capital tax | - | **48** | - | 48 |
| Income taxes | - | **(3)** | - | 66 |
| IMO | | | | |
| Electricity sales | **3,371** | - | - | - |
| Ancillary services | **82** | **67** | 102 | 2 |
| Joint venture companies | | | | |
| Services | **8** | **1** | 9 | 42 |
| Systems | - | - | - | 12 |
| OEPSC-services | **1** | **2** | 6 | - |
| | **4,207** | **673** | 1,271 | 705 |

At December 31, 2002, accounts receivable included $4 million (2001 - $131 million) due from Hydro One, $551 million (2001 - $9 million) due from the IMO, nil (2001 - $2 million) due from joint venture companies and nil (2001 - $1 million) due from OEPSC. Accounts payable and accrued charges at December 31, 2002 included nil (2001 - $3 million) due to Hydro One, nil (2001 - $2 million) due to the IMO, nil (2001 - $1 million) due to joint venture companies and nil (2001 - $1 million) due to OEPSC.

## 20. OTHER ITEMS

### WSIB Settlement

For purposes of the Workplace Safety and Insurance Board of Ontario ("WSIB"), OPG was reclassified from a schedule 2 self-insured employer to a schedule 1 premium-paying employer. During 2002, the WSIB assumed the liability with respect to OPG's existing and future workers' compensation claims in exchange for a cash payment of $54.5 million. Accordingly, a settlement of the entire obligation occurred and the Company recorded a one-time reduction in operations, maintenance and administration expenses of $24 million.

## 21. OTHER INCOME

Other income is comprised of the gain on sales from decontrol activities and other initiatives as follows:

| *(millions of dollars)* | 2002 | 2001 |
|---|---|---|
| Mississagi River generating stations *(note 13)* | **99** | - |
| Gain on sale of long-term investments | **54** | - |
| Nuclear Safety Analysis Division | **11** | - |
| Investment in New Horizon System Solutions Inc. | **4** | - |
| Investment in Kinectrics Inc. | **3** | - |
| | **171** | - |

### Sale of Nuclear Safety Analysis Division

In September 2002, the Company completed the sale of its Nuclear Safety Analysis Division to Nuclear Safety Solutions Limited, a wholly-owned Canadian subsidiary of NNC Holdings Limited. Total proceeds from the sale were approximately $20 million consisting of cash proceeds of approximately $15 million and assumption of other liabilities of approximately $5 million. The Company recorded a gain of approximately $11 million.

### Sale of Investment in New Horizon System Solutions Inc.

In March 2002, OPG divested its 49 per cent joint venture interest in New Horizon System Solutions Inc. ("New Horizon") to Business Transformation Services Inc., a wholly owned subsidiary of Cap Gemini. OPG is continuing with its 10-year information technology outsourcing agreement with New Horizon that commenced in February 2001. The Company recorded a gain on sale of $4 million.

### Sale of Investment in Kinectrics Inc.

In January 2002, OPG sold its remaining ownership interest in Kinectrics Inc. to 3982912 Canada Inc., a subsidiary of AEA Technology plc., for approximately $12 million in cash proceeds. The Company recorded a gain on sale of $3 million.

## 22. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

| *(millions of dollars)* | **2002** | 2001 |
|---|---|---|
| Accounts receivable | **274** | (50) |
| Note receivable | **(225)** | - |
| Income taxes recoverable | **(3)** | (77) |
| Fuel inventory | **23** | (293) |
| Materials and supplies | **(45)** | (60) |
| Market power mitigation agreement rebate payable | **572** | - |
| Accounts payable and accrued charges | **(121)** | 33 |
| | **475** | (447) |

## 23. REGULATION AND STATUS OF DEREGULATION IN ONTARIO

### (a) Bill 210 *"Electricity Pricing, Conservation and Supply Act, 2002"*

On May 1, 2002, Ontario opened its wholesale and retail electricity markets to competition. Subsequent to market opening, in November 2002, the Government of Ontario introduced Bill 210, *"Electricity Pricing, Conservation and Supply Act, 2002"*. The Bill became law on December 9, 2002. The new legislation and related regulations include the following key features:

- Effective December 1, 2002 and until April 30, 2006, electricity commodity prices are set at 4.3¢/kWh for low volume consumers (consumers using less than 150,000 kWh annually) and other designated consumers including those who have a demand of 50 kW or less.

- Refunds will be provided to these consumers for the difference between the 4.3¢/kWh and the amount actually paid by these customers since market opening.

- The rates for transmission and distribution, and the fees for the operation of the IMO are capped at current levels.

- IMO market uplift charges to distributors and low volume and designated consumers are capped at 0.62¢/kWh.

- The Minister of Energy has been given increased powers including the ability to review market rules made by the IMO to ensure that the new rules do not unduly and adversely affect the interests of consumers with respect to prices or the reliability or quality of electricity service. The Minister has also been given powers to control rates approved by the OEB and to require certain orders to be amended.

- Tax incentives are provided to promote conservation, use of alternate fuels and support for clean energy production through a variety of mechanisms.

The new legislation and related regulations introduced in November 2002 did not include any changes in the electricity prices or the market rules related to the IMO-administered real-time market or spot market, nor did they address the form of electricity pricing for customers other than low volume and designated customers. *The Electricity Pricing, Conservation and Supply Act, 2002,* as it relates to the low volume and other designated consumers, is not expected to have a significant impact on OPG.

### (b) Business Protection Plan for Large Electricity Consumers in Ontario

On March 21, 2003, the Province announced a business protection plan for large electricity consumers in Ontario. Under this plan, consumers using up to 250,000 kWh per year will be included in the fixed price rate of 4.3¢/kWh retroactive to May 1, 2002. Except for certain designated customers, all consumers using above 250,000 kWh per year will remain in the competitive wholesale and retail markets and receive rebates under the terms of the existing market power mitigation agreement arrangements for the 12 months ending April 30, 2003. Effective May 1, 2003, rebates to these customers will be fixed at 50 per cent of the amount by which the average spot price in the IMO-administered market exceeds 3.8¢/kWh, with rebates paid on a quarterly basis. OPG will continue to be responsible for a rebate commitment based on the existing market power mitigation agreement arrangement under which the level of payment is impacted by the degree of decontrol implemented by OPG. This business protection plan is not expected to have a material impact on OPG's operating results.

# GOVERNMENT ORGANIZATIONS

## AGRICORP

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

***Auditor's Report***

To AgriCorp
and to the Minister of Agriculture and Food

I have audited the balance sheet of AgriCorp as at March 31, 2003 and the statements of operations and fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 6, 2003

J.R. McCarter, CA
Assistant Provincial Auditor

## AGRICORP

### Balance Sheet
### As at March 31, 2003

| | 2003 ($ 000) | 2002 ($ 000) |
|---|---|---|
| **ASSETS** | | |
| Cash | 1,723 | 3,294 |
| Accounts receivable (Note 4) | 24,782 | 52,092 |
| Funds under administration (Note 5) | 12,461 | 13,472 |
| Investments (Note 6) | 150,307 | 202,527 |
| Due from the Minister of Finance (Note 7) | 96,418 | 141,099 |
| Capital assets (Note 8) | 1,102 | 987 |
| | 286,793 | 413,471 |
| **LIABILITIES AND FUND BALANCES** | | |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | 1,554 | 4,398 |
| Unearned premiums and revenue (Note 9) | 20,804 | 11,347 |
| Provision for unsettled indemnities | 13,021 | 65,542 |
| Funds under administration payable (Note 5) | 12,461 | 13,472 |
| | 47,840 | 94,759 |
| **Fund Balances** (Notes 1 and 13) | | |
| General Fund | 6,067 | 4,213 |
| Ontario Crop Insurance Fund | 140,731 | 192,564 |
| Market Revenue Program | 92,155 | 121,935 |
| | 238,953 | 318,712 |
| | 286,793 | 413,471 |

See accompanying notes to financial statements.

On behalf of the Board:

Chair

Chief Executive Officer

## AGRICORP

### Statement of Operations and Fund Balance – General Fund
### For the Year Ended March 31, 2003

| | 2003<br>($ 000) | 2002<br>($ 000) |
|---|---|---|
| **Revenue** | | |
| Operating funding (Note 10) | 10,510 | 9,366 |
| Sales, consulting and other services | 6,497 | 4,124 |
| Interest Income | 59 | 151 |
| Reinsurance adjusting costs received (Note 11) | — | 1,905 |
| | 17,066 | 15,546 |
| **Expenses** | | |
| Selling, general and administrative | 14,580 | 12,288 |
| Depreciation | 632 | 571 |
| | 15,212 | 12,859 |
| **Excess of revenue over expenses** | 1,854 | 2,687 |
| **Fund balance, beginning of year** | 4,213 | 1,526 |
| **Fund balance, end of year** | 6,067 | 4,213 |

See accompanying notes to financial statements.

## AGRICORP

### Statement of Operations and Fund Balance – Ontario Crop Insurance Fund
### For the Year Ended March 31, 2003

| | 2003<br>($ 000) | 2002<br>($ 000) |
|---|---|---|
| **Revenue** | | |
| Premiums from insured producers | 48,823 | 35,214 |
| Premium funding – Ontario and Canada (Note 3) | 48,823 | 35,214 |
| Interest and investment income | 10,929 | 18,444 |
| Reinsurance received (Note 11) | 39 | 71,752 |
| Bad debt recoveries | 41 | 130 |
| | 108,655 | 160,754 |
| **Expenses** | | |
| Indemnities (Note 12) | 143,447 | 261,276 |
| Reinsurance (Note 11) | 17,041 | 7,679 |
| | 160,488 | 268,955 |
| **Excess (deficiency) of revenue over expenses** | (51,833) | (108,201) |
| **Fund balance, beginning of year** | 192,564 | 300,765 |
| **Fund balance, end of year** | 140,731 | 192,564 |

See accompanying notes to financial statements.

## AGRICORP

### Statement of Operations and Fund Balance – Market Revenue Program
### For the Year Ended March 31, 2003

| | 2003<br>($ 000) | 2002<br>($ 000) |
|---|---|---|
| **Revenue** | | |
| Premium funding – Ontario and Canada (Note 3) | 14,579 | 45,047 |
| Interest income | 3,089 | 5,726 |
| | 17,668 | 50,773 |
| **Expenses** | | |
| Indemnities (Note 12) | 47,448 | 61,282 |
| **Excess (deficiency) of revenue over expenses** | (29,780) | (10,509) |
| **Fund balance, beginning of year** | 121,935 | 132,444 |
| **Fund balance, end of year** | 92,155 | 121,935 |

See accompanying notes to financial statements.

## AGRICORP

### Statement of Cash Flows
### For the Year Ended March 31, 2003

| | 2003<br>($ 000) | 2002<br>($ 000) |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Excess (deficiency) of revenue over expenses | | |
| ▪ General Fund | 1,854 | 2,687 |
| ▪ Ontario Crop Insurance Fund | (51,833) | (108,201) |
| ▪ Market Revenue Program | (29,780) | (10,509) |
| Adjustments to reconcile net income to funds provided by operating activities | | |
| ▪ Depreciation | 632 | 571 |
| ▪ Net change in working capital | 26,083 | 24,496 |
| Cash flows from operating activities | (53,044) | (90,956) |
| **Cash Flows from Investing Activities** | | |
| Purchase of capital assets | (747) | (846) |
| Decrease in investments | 52,220 | 91,473 |
| Cash flows used in investing activities | 51,473 | 90,627 |
| **Net increase (decrease) in cash** | (1,571) | (329) |
| **Cash at beginning of year** | 3,294 | 3,623 |
| **Cash at end of year** | 1,723 | 3,294 |

See accompanying notes to financial statements.

## AGRICORP

## Notes to Financial Statements
March 31, 2003

### 1. NATURE OF OPERATIONS

The *AgriCorp Act, 1996* established AgriCorp as a new Crown agency effective January 1, 1997. The Corporation was established without share capital. Its mandate is to design and deliver agricultural safety net plans and other food products and services to the farm, food and rural sectors of Ontario. Current safety net programs include Crop Insurance and the Market Revenue Program.

The Ontario Crop Insurance Fund was established in 1966 and currently operates pursuant to the *Crop Insurance Act (Ontario), 1996*. The program provides growers with protection on all major crops grown in Ontario, against yield reduction caused by natural perils.

The Market Revenue program was established pursuant to the Interim Gross Revenue Insurance Plan (GRIP) agreement established by the Government of Canada with the provinces and commenced operations on April 1, 1991. The Program protects farmers against reduced income caused by low market prices of certain designated crops.

In January 2001, AgriCorp assumed responsibility from the Ontario Ministry of Agriculture and Food for the delivery of the Farm Business Registration Program established under the *Farm Registration and Farm Organizations Funding Act, 1993*. AgriCorp's obligations under an agreement with the Ministry primarily include registration of farm businesses, collection of registration fees and, after deducting an administrative charge, forwarding the net fees to Ontario's accredited General Farm Organizations.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Accounting

The Corporation's financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants.

#### (b) Capital Assets

Capital assets are stated at cost less accumulated depreciation. Depreciation is provided using the straight line method over the estimated useful life of the assets as listed below.

| | |
|---|---|
| Furniture and fixtures | 4 years |
| Vehicles | 4 years |
| Machinery and equipment | 4 years |
| Computer hardware | 3 years |
| Computer software | 2 years |
| Leasehold improvements | remaining life of the lease |

#### (c) Pension Plan

Full-time employees participate in a mandatory contributory defined benefit pension plan administered by a third-party administrator. The Corporation matches employees' contributions. The cost of pension benefits for the defined benefit plan is determined by an independent actuary using the projected benefit method prorated on services and management's best estimates. Pension plan assets are valued using current fair values and any adjustments are amortized on a straight-line basis over the actuarial average remaining service life of the employee group.

## AGRICORP

**Notes to Financial Statements**
**March 31, 2003**

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Investments

Interest income, gains and losses on disposal, amortization of premiums and discounts and write-downs to market value are reported in investment income. Market Revenue, Crop Insurance and General Fund cashflows and investments are segregated avoiding the need for allocation of investment income. Short-term investments are acquired primarily for the purpose of liquidity and are intended to be held for less than one year. Short-term investments are carried at cost which approximates market value. Long-term investments are recorded at cost net of accumulated premiums and discounts amortized over the term to maturity.

#### (e) Provision for Unsettled Indemnities

Provision for unsettled indemnities represents management's best estimates of amounts to be paid. Some commodity price variables for the Market Revenue Program payment calculations cannot be finalized until the end of the 2003 calendar year. Certain Crop Insurance claims remained unsettled at year-end and were either quantified based on settlement amounts after year-end or management estimates were made.

#### (f) Revenue Recognition

Premiums received in the period are deferred for crops, which will be harvested subsequent to the end of the fiscal year.

### 3. CANADA-ONTARIO COST SHARING AGREEMENTS

#### (a) Crop Insurance

The current Canada-Ontario Crop Insurance Agreement came into effect April 1, 1997 and has no explicit expiry date. It can be terminated by either party with advance notice of two complete fiscal years. Under the terms of the Agreement, the Province and the Federal government share equally the cost of 50% of the premium with the producers paying the remaining 50%. The two levels of government share equally the selling, general and administrative expenses.

#### (b) Market Revenue

In March 2002, the Governments of Canada and Ontario extended the Canada-Ontario Market Revenue Agreement to include the 2001 and 2002 crop years. Under the terms of the Agreement, the Federal government is required to contribute $10 million to the Market Revenue Program on November 1st of each year subject to the availability of funds. Ontario's contribution to the program is based on the residual funds available after deducting the contributions made to other programs from the total amount appropriated annually for safety net support. The Province and the Federal government each share equally in the cost of the selling, general and administrative expenses.

## AGRICORP

**Notes to Financial Statements**
**March 31, 2003**

### 4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

| | 2003 ($ 000) | 2002 ($ 000) |
|---|---|---|
| Government funding | 17,980 | 48,562 |
| Accrued interest | 6 | 9 |
| Producer premiums, net | 6,021 | 2,786 |
| Trade | 775 | 735 |
| | 24,782 | 52,092 |

### 5. FUNDS UNDER ADMINISTRATION

The Corporation provides cheque production and cash management services for agricultural programs under various agreements with the Ontario Ministry of Agriculture and Food. The funds required to make payments under these programs are provided by Ontario and Canada.

| | 2003 ($ 000) | 2002 ($ 000) |
|---|---|---|
| **Funds Under Administration** | | |
| Short-term investments | 10,452 | 2,396 |
| Cash (Outstanding payments) | 1,954 | 11,076 |
| Other | 55 | — |
| | 12,461 | 13,472 |
| **Funds Under Administration Payable** | | |
| Ontario Whole Farm Relief Program | 3,021 | 2,446 |
| Ontario Farm Income Disaster Program | 8,863 | 4,503 |
| Canada Grain Stabilization Payment | 20 | 6,282 |
| Ontario Farm Business Registration Program | 169 | 92 |
| Other | 388 | 149 |
| | 12,461 | 13,472 |

### 6. INVESTMENTS

Legislation restricts the Corporation's investments to highly liquid, high grade instruments such as federal and provincial bonds, deposit notes issued by domestic financial institutions and other securities approved by the Minister of Finance.

## AGRICORP

**Notes to Financial Statements**
**March 31, 2003**

### 6. INVESTMENTS (CONTINUED)

#### (a) Portfolio Profile

Investments are as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Carrying Amount ($ 000) | Fair Value ($ 000) | Carrying Amount ($ 000) | Fair Value ($ 000) |
| **Short-term** | 19,535 | 19,473 | 33,627 | 33,722 |
| **Long-term** | | | | |
| Government of Canada | 20,382 | 20,928 | 20,706 | 20,721 |
| Province of Ontario | 25,708 | 26,813 | 32,391 | 32,837 |
| Other provincial governments | 28,825 | 29,577 | 34,199 | 33,826 |
| Provincial utilities | 45,713 | 47,214 | 47,198 | 46,843 |
| Other financial institutions | 10,144 | 10,152 | 34,406 | 32,968 |
| Total long-term | 130,772 | 134,684 | 168,900 | 167,195 |
| **Total Investments** | 150,307 | 154,157 | 202,527 | 200,917 |

#### (b) Investment Risk

The coupon rates for the long-term bond portfolio ranged from 5.0% to 10.25% with a weighted average yield of 5.81%. Fluctuations in interest rates could have a significant impact on the market value of the bond portfolio. Although bonds are generally held to maturity, realized gains or losses could result if actual claims levels differed significantly from expected claims and quick liquidation of assets were required to meet obligations. At March 31, 2003, a 1% move in interest rates could impact the market value by approximately $4.6 million.

#### (c) Maturity Profile of the Investment Portfolio

| | 2003 ($ 000) | 2002 ($ 000) |
|---|---|---|
| <1 Year | 19,535 | 33,627 |
| 1-3 Years | 56,096 | 25,828 |
| 3-5 Years | 37,727 | 65,394 |
| >5 Years | 36,949 | 77,678 |
| Total | 150,307 | 202,527 |

**AGRICORP**

**Notes to Financial Statements**
**March 31, 2003**

## 7. DUE FROM THE MINISTER OF FINANCE

Pursuant to Order-in-Council 1546/91, an account has been established in the Ontario Government's Consolidated Revenue Fund to receive Market Revenue Program contributions from Canada and Ontario. Interest is paid quarterly on the account's average daily closing value based on the average Bank of Canada treasury bill rate. This account is used to administer the Program and cannot be accessed for the general operating, financing and investing activities of AgriCorp.

## 8. CAPITAL ASSETS

| | March 31, 2003 | | | 2002 |
|---|---|---|---|---|
| | Cost ($ 000) | Accumulated Amortization ($ 000) | Net Book Value ($ 000) | Net Book Value ($ 000) |
| Computer hardware | 2,613 | 1,805 | 808 | 846 |
| Computer software | 1,307 | 1,080 | 227 | 65 |
| Leasehold improvements | 153 | 119 | 34 | 9 |
| Machinery and equipment | 122 | 91 | 31 | 61 |
| Vehicles | 36 | 36 | — | — |
| Furniture and fixtures | 18 | 16 | 2 | 6 |
| | 4,249 | 3,147 | 1,102 | 987 |

## 9. UNEARNED PREMIUMS AND REVENUE

Unearned premiums represent premiums paid in advance to the Ontario Crop Insurance Fund for winter wheat ($11.87 million), forage ($3.07 million) and other crops ($4.72 million). These crops are not harvested until after the end of the fiscal year giving rise to the deferral of the premiums. Unearned revenue ($1.14 million) includes operating funding related to the unamortized value of capital assets.

## 10. OPERATING FUNDING

Canada and Ontario have agreed to share equally the costs of administering the Ontario Crop Insurance Fund and the Market Revenue Program. The Federal contribution shall not be more than the provincial share even if that amounts to less than 50% of the incurred costs. Based on a reasonable estimate of the administrative workload, these costs are allocated to the Fund and Program 95% and 5%, respectively.

## 11. REINSURANCE AGREEMENT

The Corporation has an ongoing program of reinsurance with a number of insurance carriers. This program provides for the reinsuring companies to assume crop insurance losses based on negotiated thresholds. Payments made by reinsurance companies represent claims submitted for crop losses as well as adjusting costs incurred by the Corporation.

## AGRICORP

**Notes to Financial Statements**
**March 31, 2003**

### 12. INDEMNITIES

The Ontario Crop Insurance Fund's operating results for the current period includes a $0.35 million under-provision for unsettled indemnities as at March 31, 2002 (2001 – $2.15 million under-provision for indemnities). In addition, the Ontario Crop Insurance Fund's operating results for the current period include a provision for unsettled indemnities relating to the 2002 crop year of $1.02 million (2001 – $1.3 million).

The Market Revenue Program's operating results for the current period includes a $35.45 million under-provision of unsettled indemnities as at March 31, 2002 (2001 – $2.9 million over-provision). In addition, the Market Revenue Program's operating results for the current period include a provision for unsettled indemnities relating to the 2002 crop year of $12 million (2001 – $64.2 million).

### 13. SEGMENTED INFORMATION

| | General Fund | Crop Insurance Fund | Market Revenue Program | Total 2003 | Total 2002 |
|---|---|---|---|---|---|
| | | | ($ 000) | | |
| **Assets** | | | | | |
| Cash | 1,118 | 605 | — | 1,723 | 3,294 |
| Accounts receivable | 1,709 | 15,030 | 8,043 | 24,782 | 52,092 |
| Funds under administration | 12,461 | — | — | 12,461 | 13,472 |
| Investments | 4,436 | 145,871 | — | 150,307 | 202,527 |
| Due from the Minister of Finance | — | — | 96,418 | 96,418 | 141,099 |
| Capital assets | 1,102 | — | — | 1,102 | 987 |
| Inter-fund receivables (payables) | 265 | — | (265) | — | — |
| | 21,091 | 161,506 | 104,196 | 286,793 | 413,471 |
| **Liabilities** | | | | | |
| Accounts payable and accrued liabilities | 1,426 | 87 | 41 | 1,554 | 4,398 |
| Unearned premiums and revenue | 1,137 | 19,667 | — | 20,804 | 11,347 |
| Provision for unsettled indemnities | — | 1,021 | 12,000 | 13,021 | 65,542 |
| Funds under administration payable | 12,461 | — | — | 12,461 | 13,472 |
| | 15,024 | 20,775 | 12,041 | 47,840 | 94,759 |
| **Fund Balances** | 6,067 | 140,731 | 92,155 | 238,953 | 318,712 |

**AGRICORP**

**Notes to Financial Statements**
**March 31, 2003**

## 14. PENSION PLAN

The Corporation has a mandatory contributory defined benefit plan for its full-time employees. The plan was set up effective January 1, 1997. Plan assets are invested in three balanced funds and one global equity fund.

| | 2003<br>($ 000) | 2002<br>($ 000) |
|---|---|---|
| Fair value of plan assets - beginning | 2,312 | 1,873 |
| Contributions by the corporation | 286 | 257 |
| Contributions by the employees | 286 | 257 |
| Benefit payments | (132) | (169) |
| Return on plan assets | (289) | 94 |
| Fair value of plan assets – ending | 2,463 | 2,312 |

Based on a financial statement prepared by the plan's actuary, the present value of the accrued pension obligation and the fair value of the net assets available to provide for the obligation, are as follows:

| | 2003<br>($ 000) | 2002<br>($ 000) |
|---|---|---|
| Accrued pension obligation | 3,119 | 2,447 |
| Fair value of plan assets | 2,463 | 2,312 |
| Pension plan surplus (deficit) | (656) | (135) |

The pension plan remained in a deficit during the fiscal year due to low investment returns. Certain assumptions were made in determining the pension obligation. Plan assets were assumed to earn 7.5% per year, salary escalation was assumed to be 5% per year and 7% was used as the discount rate.

To date, the Corporation has an accrued pension benefit liability as follows:

| | 2003<br>($ 000) | 2002<br>($ 000) |
|---|---|---|
| Accrued benefit liability – beginning | 54 | 33 |
| Pension expense for the year | 317 | 278 |
| Contributions by the corporation | (286) | (257) |
| Accrued benefit liability – ending | 85 | 54 |

## 15. RELATED PARTY TRANSACTIONS

The Corporation has entered into several agreements to acquire services from the Ontario Ministry of Agriculture and Food. Under the terms of the agreements the Corporation paid the Ministry $337,492 during the year. These services, assessed at fair market value, include the utilization of postage, courier, copy, and legal services. In addition, the Corporation paid the Ontario Realty Corporation $317,767 to rent their head office location.

**AGRICORP**

**Notes to Financial Statements**
**March 31, 2003**

### 16. BOARD REMUNERATION AND SALARY DISCLOSURE

Total remuneration to members of the Board of Directors was $43,587 during the year ending March 31, 2003 (2002 – $47,470).

The *Public Sector Salary Disclosure Act, 1996*, requires the Corporation to disclose employees paid an annual salary in excess of $100,000. For the 2002 calendar year, there were no employees requiring disclosure.

### 17. LEASE COMMITMENTS

The Corporation is committed under an operating lease on leased premises with future minimum rental payments due as follows:

| | ($ 000) |
|---|---|
| 2004 | 357 |
| 2005 | 357 |
| 2006 | 357 |
| | 1,071 |

cancer care ontario | action cancer ontario

August 12, 2003

## Management's Responsibility for Financial Information

Management and the Board of Directors are responsible for the financial statements and all other information presented in these Financial Statements. The financial statements have been prepared by Management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgements.

Cancer Care Ontario is dedicated to the highest standards of integrity and patient care. To safeguard Cancer Care Ontario's assets, a sound and dynamic set of internal financial controls and procedures that balance benefits and costs has been established. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information. Internal audits are conducted to assess management systems and practices, and reports are issued to the Finance and Audit Committee.

The Board of Directors, through the Finance and Audit Committee, ensures that Management fulfills its responsibilities for financial information and internal control. This committee oversees the financial activities of Cancer Care Ontario and reviews the financial statements and the external auditors' report thereon.

The financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

For the fiscal year ending March 31, 2003, Cancer Care Ontario's Board of Directors, through the Finance and Audit Committee, was responsible for ensuring that management fulfilled its responsibilities for financial reporting and internal controls. The Committee meets regularly with Management, the internal auditor and the Provincial Auditor to satisfy itself that each group had properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board of Directors. The Provincial Auditor had direct and full access to the Finance and Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of Cancer Care Ontario's financial reporting and the effectiveness of the system of internal controls.

On behalf of Cancer Care Ontario Management

Alan R. Hudson, ~~OC~~
President and Chief Executive Officer

Catherine David Nolan
Provincial Vice President, Corporate Services
and Chief Financial Officer

Cancer Care Ontario | Action Cancer Ontario 620 University Avenue Toronto ON M5G [illegible]
T 416.971.9800 F 416.971.6888 www.cancercare.on.ca

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# CANCER CARE ONTARIO

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

***Auditor's Report***

To Cancer Care Ontario
and to the Minister of Health and Long-Term Care

I have audited the statement of financial position of Cancer Care Ontario as at March 31, 2003 and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Cancer Care Ontario's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of Cancer Care Ontario as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 30, 2003

J.R. McCarter, CA
Assistant Provincial Auditor

# CANCER CARE ONTARIO

Statement of Financial Position
(In thousands of dollars)

March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 35,757 | $ 5,372 |
| Short-term investments | 4,010 | 3,016 |
| Accounts receivable | 10,701 | 12,046 |
| Due from the Ministry of Health and Long-Term Care | 18,248 | 45,720 |
| Due from Community Foundations | 4,821 | 3,177 |
| Other | 3,608 | 3,982 |
| | 77,145 | 73,313 |
| Long-term investments (note 2) | 58,434 | 55,766 |
| Accrued pension asset (note 3) | 7,879 | 8,858 |
| Capital assets (note 4) | 57,424 | 33,353 |
| Other | 337 | 454 |
| | $ 201,219 | $ 171,744 |

## Liabilities, Deferred Contributions and Fund Balances

| | 2003 | 2002 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 44,502 | $ 46,217 |
| Deferred contributions: | | |
| Deferred operating grants (note 5(a)) | 23,657 | 19,679 |
| Deferred contributions related to capital assets (note 5(b)) | 71,782 | 46,877 |
| | 95,439 | 66,556 |
| Post-retirement benefits other than pensions (note 3) | 6,801 | 4,864 |
| Fund balances: | | |
| Endowment | 2,613 | 2,964 |
| Internally and externally restricted | 34,592 | 33,959 |
| Invested in capital assets (note 6) | 4,849 | 6,735 |
| Related to post-retirement benefits (note 7) | 1,078 | 3,994 |
| Unrestricted | 11,345 | 6,455 |
| | 54,477 | 54,107 |
| Commitments (note 11) | | |
| Contingency (note 12) | | |
| | $ 201,219 | $ 171,744 |

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

# CANCER CARE ONTARIO

Statement of Operations
(In thousands of dollars)

Year ended March 31, 2003, with comparative figures for 2002

| | Restricted | | General | | Total | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Revenue: | | | | | | |
| Ministry of Health and Long-Term Care | $ – | $ – | $ 286,110 | $ 265,955 | $ 286,110 | $ 265,955 |
| Investment income (note 8) | 61 | 1,005 | 3,210 | 4,064 | 3,271 | 5,069 |
| Donations, bequests and grants | 8,334 | 6,880 | 157 | 230 | 8,491 | 7,110 |
| Amortization of deferred contributions related to capital assets (note 5(b)) | 1,705 | 1,198 | 13,130 | 6,250 | 14,835 | 7,448 |
| Other | 19,801 | 13,665 | 18,164 | 16,296 | 37,965 | 29,961 |
| | 29,901 | 22,748 | 320,771 | 292,795 | 350,672 | 315,543 |
| Expenses: | | | | | | |
| Salaries | 5,622 | 4,657 | 118,888 | 121,901 | 124,510 | 126,558 |
| Benefits | 1,183 | 870 | 30,962 | 32,605 | 32,145 | 33,475 |
| Drugs | 16 | 5 | 67,935 | 61,665 | 67,951 | 61,670 |
| Other operating (note 9) | 17,421 | 10,758 | 58,369 | 54,029 | 75,790 | 64,787 |
| Medical and surgical services and supplies | 2,131 | 1,343 | 22,320 | 18,494 | 24,451 | 19,837 |
| Amortization of capital assets | 1,705 | 1,198 | 17,047 | 11,227 | 18,752 | 12,425 |
| Pension (note 3) | – | – | 4,605 | 5,634 | 4,605 | 5,634 |
| Post-retirement benefits other than pension (note 3) | – | – | 2,098 | 2,009 | 2,098 | 2,009 |
| | 28,078 | 18,831 | 322,224 | 307,564 | 350,302 | 326,395 |
| Excess (deficiency) of revenue over expenses | $ 1,823 | $ 3,917 | $ (1,453) | $ (14,769) | $ 370 | $ (10,852) |

See accompanying notes to financial statements.

# CANCER CARE ONTARIO

Statement of Changes in Fund Balances
(In thousands of dollars)

Year ended March 31, 2003, with comparative figures for 2002

| | | | | | | 2003 | 2002 |
|---|---|---|---|---|---|---|---|
| | Restricted | | General | | | | |
| | Endowment | Other | Invested in capital assets (note 6) | Related to post-retirement benefits (note 7) | Unrestricted | Total | Total |
| Fund balances, beginning of year | $ 2,964 | $ 33,959 | $ 6,735 | $ 3,994 | $ 6,455 | $ 54,107 | $ 64,959 |
| Excess (deficiency) of revenue over expenses | 26 | 1,797 | (3,917) | (6,703) | 9,167 | 370 | (10,852) |
| Interfund transfers (note 10) | (377) | (1,164) | – | – | 1,541 | – | – |
| Funding contributions to post-retirement benefits | – | – | – | 3,787 | (3,787) | – | – |
| Invested in capital assets (note 6) | – | – | 2,031 | – | (2,031) | – | – |
| Fund balances, end of year | $ 2,613 | $ 34,592 | $ 4,849 | $ 1,078 | $ 11,345 | $ 54,477 | $ 54,107 |

See accompanying notes to financial statements.

# CANCER CARE ONTARIO

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess of revenue over expenses - Restricted | $ 1,823 | $ 3,917 |
| Deficiency of revenue over expenses - General | (1,453) | (14,769) |
| Amortization of capital assets | 18,752 | 12,425 |
| Amortization of deferred contributions related to capital assets | (14,835) | (7,448) |
| Change in non-cash operating working capital | 29,810 | (27,531) |
| | 34,097 | (33,406) |
| Investing activities: | | |
| Short-term investments, net | (994) | (3,016) |
| Long-term investments, net | (2,668) | 5,421 |
| Purchase of capital assets: | | |
| Funded by contributions for capital assets | (40,792) | (18,206) |
| Internally funded | (2,031) | 1,866 |
| Other assets | 117 | 94 |
| Change in accrued pension asset | 979 | 2,868 |
| Change in post-retirement benefits other than pensions | 1,937 | 1,909 |
| Deferred contributions related to capital assets | 39,740 | 38,465 |
| | (3,712) | 29,401 |
| Increase (decrease) in cash and cash equivalents | 30,385 | (4,005) |
| Cash and cash equivalents, beginning of year | 5,372 | 9,377 |
| Cash and cash equivalents, end of year | $ 35,757 | $ 5,372 |

See accompanying notes to financial statements.

# CANCER CARE ONTARIO

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2003

---

The Government of Ontario approved the establishment of Cancer Care Ontario (the "Organization") on April 29, 1997. It will facilitate significant improvements for cancer patients, their families and the public in the outcome, quality and efficiency of cancer services. The cancer services will encompass prevention, early detection, diagnosis, treatment, supportive care, research and education. The Organization was incorporated under the name of The Ontario Cancer Treatment and Research Foundation by an Act of Legislature of the Province of Ontario in 1943 and the name of the Organization was changed in 1997 to Cancer Care Ontario. The Organization is a registered charity under the Income Tax Act.

## 1. Significant accounting policies:

The Organization's financial statements are prepared by management using Canadian generally accepted accounting principles.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, deferred contributions and fund balances at the date of the financial statements and the reported amounts on the statements of operations and changes in fund balances during the year. Actual results could differ from those estimates.

(a) Fund accounting:

The Organization uses the restricted fund method of accounting for contributions.

The General Fund accounts for the Organization's Ministry of Health and Long-Term Care funded programs and administrative activities. This fund reports unrestricted resources and restricted operating grants.

The Restricted Fund reports all externally and internally restricted resources. The main use of these resources is for research and education. These funds include donations and grants which either have specific restrictions placed on their use by the donor or have been received by a centre and are restricted for use by that centre.

The Endowment Fund reports contributions subject to externally imposed stipulations specifying that the resources contributed be maintained permanently.

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2003

---

## 1. Significant accounting policies (continued):

(b) Revenue recognition:

Restricted contributions related to Ministry of Health and Long-Term Care funded programs are recognized as revenue of the General Fund in the year which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate Restricted Fund in the year of receipt.

Contributions for endowment are recognized as revenue of the appropriate Endowment Fund in the year of receipt.

Restricted investment income earned on Endowment Fund resources are recognized as revenue of the Restricted Fund.

Unrestricted contributions are recognized as revenue of the General Fund in the year received.

(c) Inventory:

Drug inventory is stated at the lower of cost and net realizable value, and is included in other current assets.

(d) Investments:

Short-term investments are stated at cost, which approximates market. Short-term investments are those with original terms to maturity in excess of three months but less than one year. Short-term investments with maturity of less than three months are recorded as cash.

Long-term investments are recorded at cost. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value.

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2003

---

## 1. Significant accounting policies (continued):

(e) Capital assets:

Capital assets are recorded at cost. Contributions received for the purchase of capital assets are recorded as grants for capital assets and amortized on the same basis as the capital assets. All capital assets are amortized on a straight-line basis at 20% per annum.

Land and buildings for four lodges donated by the Canadian Cancer Society - Ontario Division are recorded at nominal value, as current value is not reasonably determinable.

(f) Contributed services:

The Organization benefits from services provided by volunteers at the regional cancer centres. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

(g) Post-retirement benefits:

(i) Pension costs:

The pension expense and obligation have been actuarially determined using a modified unit credit methodology prorated on services and based on management's best estimate assumptions. The pension expense for the year also includes adjustments for plan amendments and changes in assumptions which are being amortized on a straight-line basis over the average remaining service period of active plan members. Experience gains or losses which exceed 10% of the greater of the benefit obligation and the fair value of plan assets are amortized over the average remaining service period of active plan members.

(ii) Post-retirement benefits other than pensions:

The cost of post-retirement benefits other than pensions is actuarially determined using the projected benefit method prorated on employment services and is expensed as employment services are rendered.

The transitional obligation arising from the adoption of this accounting policy is being amortized over the average remaining service period of active employees expected to receive benefits under the benefit plans.

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2003

## 2. Long-term investments:

The carrying value and market value of the Organization's long-term investments are as follows:

| 2003 | Carrying value | Market value | Effective yield | Maturity |
|---|---|---|---|---|
| Treasury bills, guaranteed investment certificates and cash | $ 5,206 | $ 5,196 | 2.81% | Under 1 year |
| Bonds | 43,306 | 43,151 | 3.39 - 15.68% | 0 - 49 years |
| Equities | 9,922 | 7,888 | n/a | n/a |
| | $ 58,434 | $ 56,235 | | |

| 2002 | Carrying value | Market value | Effective yield | Maturity |
|---|---|---|---|---|
| Treasury bills, guaranteed investment certificates and cash | $ 6,469 | $ 6,456 | 2.4% | Under 1 year |
| Bonds | 40,457 | 39,384 | 2.5 - 10.2% | 0 - 31 years |
| Equities | 8,840 | 8,498 | n/a | n/a |
| | $ 55,766 | $ 54,338 | | |

## 3. Pension and other retirement benefit plans:

The Organization maintains a defined contribution pension plan with a minimum defined benefit guarantee. Contributions made by the Organization during the year were $3,626 (2002 - $2,767). Contributions made by the employees during the year were $3,626 (2002 - $2,767). The amount of benefits paid during the year was $12,966 (2002 - $5,667).

The Organization also offers non-pension, post-retirement benefits to its employees, including extended health care and drugs. Benefits paid during the year under this unfunded plan were $161 (2002 - $100).

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2003

---

3. **Pension and other retirement benefit plans (continued):**

Information about the Organization's plans is as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Pension benefit plan | Other retirement benefit plan | Pension benefit plan | Other retirement benefit plan |
| Accrued benefit obligation | $ (180,851) | $ (16,301) | $ (168,687) | $ (12,187) |
| Fair value of plan assets | 172,195 | – | 204,952 | – |
| Funded status, plan surplus (deficit) | (8,656) | (16,301) | 36,265 | (12,187) |
| Unamortized actuarial loss (gain) | 57,523 | (3,719) | 16,143 | (6,674) |
| Unamortized net transitional obligation (asset) | (40,988) | 13,219 | (43,550) | 13,997 |
| Net accrued benefit asset (liability) | $ 7,879 | $ (6,801) | $ 8,858 | $ (4,864) |

The actuarially determined present value of the accrued benefit obligation is measured using management's best estimates based on assumptions that reflect the most probably set of economic circumstances and planned courses of action as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Pension benefit plan | Other retirement benefit plan | Pension benefit plan | Other retirement benefit plan |
| Discount rate | 7% | 7% | 7% | 7% |
| Salary increases | 5% per annum | n/a | 5% per annum | n/a |
| Expected net rate of return on plan assets | 6.5% per annum | n/a | 6.5% per annum | n/a |
| Hospital and drug cost trend rate | n/a | 8% in 2003 to 4% in 2013 and after | n/a | 8% in 2002 to 4% in 2007 and after |
| Other medical costs trend rate | n/a | 4% per annum | n/a | 4% per annum |
| Normal retirement age | 65 | 65 | 65 | 65 |

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2003

---

## 4. Capital assets:

| | Cost | Accumulated amortization | 2003 Net book value | 2002 Net book value |
|---|---|---|---|---|
| Office furniture, equipment and leasehold improvements | $ 58,982 | $ 32,976 | $ 26,006 | $ 3,899 |
| Therapeutic and other technical equipment | 144,505 | 114,032 | 30,473 | 28,567 |
| Radioactive cobalt and radium | 1,072 | 939 | 133 | 59 |
| Deposits on equipment | 812 | – | 812 | 828 |
| | $ 205,371 | $ 147,947 | $ 57,424 | $ 33,353 |

## 5. Deferred contributions:

(a) Deferred operating grants:

Deferred operating grants represent unspent resources related to Ministry of Health and Long-Term Care funded programs. Unspent amounts are held for use in subsequent periods or settlement by the Ministry. Changes in the deferred operating grant balance are as follows:

| | 2003 | 2002 |
|---|---|---|
| Balance, beginning of year | $ 19,679 | $ 19,365 |
| Amounts received related to subsequent periods | 9,171 | 5,909 |
| Amount recognized as revenue | (5,160) | (4,505) |
| Amount returned to Ministry of Health and Long-Term Care | (33) | (1,090) |
| Balance, end of year | $ 23,657 | $ 19,679 |

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2003

## 5. Deferred contributions (continued):

(b) Deferred contributions related to capital assets:

Deferred contributions related to capital assets represent the unamortized amount and unspent amount of funds received for the purchase of capital assets. The amortization of deferred contributions related to capital assets is recorded in the statement of operations. Contributions are amortized on a straight-line basis at 20% per annum. The changes in the deferred contributions related to capital assets balance for the year are as follows:

| | 2003 | 2002 |
|---|---|---|
| Balance, beginning of year | $ 46,877 | $ 15,860 |
| Amounts received related to capital assets | 39,740 | 38,465 |
| Amount recognized as revenue | (14,835) | (7,448) |
| Balance, end of year | $ 71,782 | $ 46,877 |

The balance of unamortized capital contributions related to capital assets consists of the following:

| | 2003 | 2002 |
|---|---|---|
| Unamortized capital contributions used to purchase capital assets | $ 52,575 | $ 26,618 |
| Unspent contributions | 19,207 | 20,259 |
| Balance, end of year | $ 71,782 | $ 46,877 |

## 6. Invested in capital assets:

| | 2003 | 2002 |
|---|---|---|
| Capital assets | $ 57,424 | $ 33,353 |
| Amounts financed by deferred capital contributions | (52,575) | (26,618) |
| | $ 4,849 | $ 6,735 |

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2003

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## 6. Invested in capital assets (continued):

Change in net assets invested in capital assets is calculated as follows:

| | 2003 | 2002 |
|---|---|---|
| Excess of expenses over revenue: | | |
| Amortization of deferred contributions related to capital assets | $ 14,835 | $ 7,448 |
| Amortization of capital assets | (18,752) | (12,425) |
| | $ (3,917) | $ (4,977) |
| Net change in invested capital assets: | | |
| Purchase of capital assets | $ 42,823 | $ 16,340 |
| Deferred contributions related to capital assets | (40,792) | (18,206) |
| | $ 2,031 | $ (1,866) |

## 7. Fund balance related to post-retirement benefits:

The fund balance related to post-retirement benefits represents the accrued pension asset, net of the post-retirement benefits other than pensions.

## 8. Investment income:

Net investment income earned on the Endowment Fund resources in the amount of $44 (2002 - $62) is included in the Restricted Fund.

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2003

## 9. Other operating expenses:

| | 2003 | 2002 |
|---|---|---|
| Restricted Fund: | | |
| Research and other | $ 17,421 | $ 10,758 |
| General Fund: | | |
| Purchased services | $ 26,712 | $ 22,430 |
| Building | 14,265 | 13,660 |
| Equipment | 6,890 | 6,104 |
| Other | 8,403 | 8,450 |
| Patient travel - referral program | – | 1,453 |
| Education and research programs and publications | 1,299 | 1,132 |
| Patient services | 800 | 800 |
| | $ 58,369 | $ 54,029 |

## 10. Interfund transfers:

| | 2003 | 2002 |
|---|---|---|
| Transfer to the General Fund from the Restricted Fund | $ 1,541 | $ 832 |

The transfer from the Restricted Fund to the General Fund represents the release of internally restricted reserves and the release of funds previously held as endowed at the direction of the donor.

## 11. Commitments:

The Organization leases computer and office equipment. Under the terms of the leases, future payments are estimated as follows:

| | |
|---|---|
| 2004 | $ 2,559 |
| 2005 | 1,745 |
| 2006 | 645 |
| 2007 | 58 |
| 2008 | 32 |
| | $ 5,039 |

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2003

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## 12. Contingency:

The Organization is a member of the Healthcare Insurance Reciprocal of Canada ("HIROC"), which was established by hospitals and other organizations to self-insure. If the aggregate premiums paid are not sufficient to cover claims, the Organization will be required to provide additional funding on a participatory basis.

Since its inception, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income less the obligation for claims reserves and expenses and operating expenses. Each subscriber which has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors of HIROC. There are no distributions receivable from HIROC as of March 31, 2003.

## 13. Financial instruments:

The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, due from the Ministry of Health and Long-Term Care, due from Community Foundations and accounts payable and accrued liabilities approximate fair values due to the short-term nature of these instruments.

The fair values of long-term investments (note 2), accrued pension asset (note 3) and post-retirement benefits other than pensions (note 3) are available elsewhere in these financial statements.

## 14. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

## 15. Planned integration of operations:

The Organization is planning to integrate its operations at its regional cancer centres with its host hospitals. This will involve transferring the Organization's employees, operations and many of its assets at each of the regional cancer centres to the corresponding host hospital. The financial effect of these transactions, if any, expected to occur before March 31, 2004, cannot be determined at this time.

**Cancer Care Ontario**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| ABD-EL-MALEK | MEDHAT | Radiation Oncologist | $132,249.63 | $320.14 |
| ABU-ZAHRA | HAKAM | Medical Oncologist | $180,599.36 | $532.29 |
| AGBOOLA | OLVSEGUN | Radiation Oncologist | $120,065.55 | $337.17 |
| ALAM | ZEENAT | Medical Oncologist | $166,746.91 | $987.95 |
| ANTHES | MARGARET | Radiation Oncologist | $187,681.41 | $258.55 |
| ARJUNE | BANSKUMAR | Medical Physicist | $122,998.46 | $345.44 |
| ARNOLD | ANDREW | Medical Oncologist | $163,577.61 | $543.71 |
| ASSURAS | JOHN | General Practitioner in Oncology | $134,608.70 | $414.94 |
| BAETZ | TARA | Medical Oncologist | $108,897.87 | $392.10 |
| BARNETT | ROBIN | Manager, Physics | $131,320.07 | $401.60 |
| BATTISTA | JERRY | Chief Physicist II | $134,690.12 | $415.82 |
| BAUMAN | GLENN | Head, Radiation Oncology | $115,101.46 | $337.62 |
| BENGER | ANN | Haematologist | $163,577.61 | $543.71 |
| BERRY | SCOTT | Medical Oncologist | $151,366.64 | $500.17 |
| BERTOTHY | NICHELE | General Practitioner in Oncology | $114,151.82 | $353.46 |
| BISSETT | RANDALL | Radiation Oncologist | $311,869.66 | $387.82 |
| BOWEN | JULIE | Head, Radiation Oncology | $198,265.25 | $329.08 |
| BRAMWELL-WESLEY | VIVIAN | Head, Medical Clinical Oncology | $178,575.47 | $542.13 |
| BROWMAN | GEORGE | VP, Regional Cancer Services | $193,603.37 | $569.34 |
| BRUNDAGE | MICHAEL | Head, Radiation Oncology | $138,548.51 | $387.82 |
| BRUNSKILL | IAN | Chief Information Officer/VP, Planning | $192,125.92 | $0.00 |
| BUCKSTEIN | RENA | Medical Oncologist | $123,494.29 | $429.62 |
| CAIRNCROSS | GREGORY | VP, Regional Cancer Services | $159,049.51 | $388.80 |
| CALIFARETTI | NADIA | Medical Oncologist | $137,860.49 | $0.00 |
| CAMERON | IAN | Medical Physicist | $108,550.39 | $345.18 |
| CAMPBELL | CAROLYN | Medical Oncologist | $161,336.11 | $538.58 |
| CANO | PABLO | Medical Oncologist | $183,620.52 | $372.38 |
| CASALE | MARIA | General Practitioner in Oncology | $111,912.37 | $353.46 |
| CHAMBERS | ANN | Senior Scientist | $105,563.36 | $326.12 |
| CHAN | ADRIEN | Medical Oncologist | $116,192.23 | $302.14 |
| CHEN | ZONGHUA | Physicist | $103,530.90 | $314.94 |
| CHOUINARD | EDMOND | Medical Oncologist | $163,577.61 | $543.71 |
| CHOW | EDWARD | Radiation Oncologist | $104,550.38 | $337.62 |
| CHOW | THOMAS | Physicist | $111,512.01 | $325.10 |
| CLARK | CAROLYN | General Practitioner in Oncology | $111,711.99 | $0.00 |
| CLEMONS | MARK | Medical Oncologist | $125,506.63 | $327.66 |
| CORBETT | TOM | Radiation Oncologist | $113,948.20 | $344.65 |
| COSTELLO | SHAUN | Head, Radiation Oncology | $181,464.98 | $337.12 |
| COVENS | ALLEN | Head, Gynaecological Oncology | $114,682.23 | $442.60 |
| COWAN | DONALD | Senior Consultant | $140,132.34 | $98.28 |
| CRIPPS | CHRISTINE | Medical Oncologist | $162,653.90 | $541.58 |
| CROSS | PETER | Radiation Oncologist | $115,497.81 | $337.07 |
| CURTIS | JOHN | Medical Oncologist | $175,914.59 | $530.65 |
| CYGLER | JOANNA | Senior Medical Physicist | $125,600.01 | $396.44 |
| DANJOUX | CYRIL | Radiation Oncologist | $109,983.07 | $337.62 |
| DAR | ABDUL | Radiation Oncologist | $129,910.94 | $528.85 |
| DEMETZ | CATHERINE | Radiation Oncologist | $114,035.66 | $336.78 |
| DENT | SUSAN | Medical Oncologist | $171,797.66 | $541.58 |
| DHALIWAL | HARBHAJAN | VP, Regional Cancer Services | $254,367.49 | $540.94 |

**Cancer Care Ontario**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| DINGLE | BRIAN | VP, Regional Cancer Services | $188,553.48 | $520.56 |
| DIXON | PETER | VP, Regional Cancer Services | $185,783.10 | $540.94 |
| DRODGE | KAREN | General Practitioner in Oncology | $111,525.70 | $344.52 |
| E | CHOAN | Radiation Oncologist | $111,177.69 | $297.36 |
| EAPEN | LIBNI | Radiation Oncologist | $116,007.01 | $337.07 |
| EISEN | ANDREA | Medical Oncologist | $131,681.68 | $426.17 |
| ELLIS | PETER | Medical Oncologist | $129,032.35 | $431.45 |
| EL-SAYED | SAMY | Radiation Oncologist | $107,687.75 | $337.07 |
| EVANS | WILLIAM | Executive VP/Head, Clinical Programs | $302,040.25 | $542.06 |
| FALKSON | CONRAD | Radiation Oncologist | $162,732.27 | $258.55 |
| FARRELL | THOMAS | Physicist | $128,005.53 | $365.88 |
| FAVELL | LISA | Director, Capital Planning | $162,235.14 | $372.47 |
| FIGUEREDO | ALVARO | Medical Oncologist | $163,577.61 | $543.71 |
| FISHER | BARBARA | Radiation Oncologist | $106,462.54 | $337.62 |
| FITZGIBBON | EDWARD | General Practitioner in Oncology | $113,772.29 | $352.92 |
| FRALICK | RICHARD | General Practioner in Oncology | $137,024.89 | $0.00 |
| GARCIA | JOHN | Director, Prevention Unit | $126,049.34 | $389.32 |
| GEORGE | RALPH | Surgical Oncologist | $112,352.97 | $348.17 |
| GERIG | LEE | Head, Clinical Physics | $122,886.57 | $381.42 |
| GERMOND | COLIN | Head, Medical Oncology | $242,285.40 | $438.86 |
| GERTLER | STAN | Medical Oncologist | $163,033.90 | $541.58 |
| GILCHRIST | JAMES | Radiation Oncologist | $107,871.93 | $337.62 |
| GINSBURG | DAVID | Medical Oncologist | $130,433.98 | $459.01 |
| GIRARD | ANDRE | Radiation Oncologist | $128,248.26 | $337.07 |
| GOEL | RAKESH | Medical Oncologist | $162,653.90 | $541.58 |
| GOH | MARY | Senior Manager, Information Systems | $100,098.34 | $298.07 |
| GOSS | GLENWOOD | Medical Oncologist | $156,380.08 | $529.22 |
| GREEN | ESTHER | Chief Nursing Officer | $100,128.50 | $240.84 |
| GREGG | RICHARD | Medical Oncologist | $163,033.90 | $540.94 |
| GRIMARD | LAVAL | Medical Oncologist | $113,965.33 | $337.07 |
| GRUNFELD | EVA | Clinician Scientist | $165,760.07 | $0.00 |
| GULAVITA | SUNIL | Head, Radiation Oncology | $212,831.29 | $258.55 |
| HALIKOWSKI | MARVIN | General Practioner in Oncology | $224,940.43 | $415.53 |
| HAMMOND | JAMES | Radiation Oncologist | $106,546.92 | $337.62 |
| HAYWARD | JOSEPH | Physicist | $103,018.28 | $293.23 |
| HERST | JORDAN | Medical Oncologist | $200,030.38 | $438.86 |
| HEYDON | ANGELICA | Director, President's Office | $109,087.43 | $320.32 |
| HIRTE | HOLGER(HAL) | Head, Medical Oncology | $182,120.54 | $561.64 |
| HODSON | IAN | Radiation Oncologist | $127,280.09 | $344.65 |
| HOLLENBERG | CHARLES | Senior Consultant | $126,094.56 | $0.00 |
| HOLOWATY | ERIC | Director, Surveillance Unit | $135,955.11 | $420.07 |
| HUAN | SUSAN | Medical Oncologist / Medical Coord, Edu. | $193,367.50 | $540.94 |
| HUDSON | ALAN | President & CEO | $287,572.58 | $2,923.15 |
| HUYNH | CHAU | General Practioner in Oncology | $193,951.85 | $225.45 |
| IMRIE | KEVIN | Medical Oncologist | $163,033.90 | $0.00 |
| ISCOE | NEILL | Medical Oncologist | $129,106.53 | $414.39 |
| JOHANSON | CURTIS | Radiation Oncologist | $109,943.67 | $344.65 |
| JONES | GLENN | Radiation Oncologist | $112,032.01 | $405.91 |
| JONKER | DEREK | Medical Oncologist | $163,033.90 | $541.58 |
| JOSHI | CHANDRA | Medical Physicist | $111,618.73 | $350.75 |

**Cancer Care Ontario**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| KARSAN | FARROK | Radiation Oncologist | $247,379.05 | $387.82 |
| KELLER | BRIAN | Physicist | $101,644.03 | $323.20 |
| KELLER | OLIVER | Medical Oncologist | $159,283.90 | $459.94 |
| KENDAL | WAYNE | Radiation Oncologist | $115,523.89 | $337.07 |
| KERR | ANDREW | Medical Physicist | $112,787.88 | $350.75 |
| KERR | IAN | Medical Oncologist | $161,076.03 | $542.13 |
| KHOSLA | NARESH | VP/Chief Financial Officer | $152,421.83 | $413.34 |
| KNIGHT | ANDREW | General Practioner in Oncology | $148,022.84 | $400.15 |
| KNIGHT | GREGORY | Medical Oncologist | $161,711.74 | $538.58 |
| KNIGHT | SUSAN | Medical Oncologist | $163,577.61 | $543.71 |
| KOCANDRLE | HANNA | General Practioner in Oncology | $108,752.82 | $336.84 |
| KOCHA | WALTER | Medical Oncologist | $163,576.03 | $542.13 |
| KOROPATNICK | JAMES | Director, Cancer Research Labs | $122,897.92 | $300.09 |
| KOUROUKIS | TOM | Haematologist | $113,418.62 | $0.00 |
| KREIGER | NANCY | Sr. Scientist / Act. Dir., Research Unit | $108,575.59 | $315.79 |
| KRON | TOMAS | Senior Physicist | $127,045.57 | $404.40 |
| KWOK | CHUN-BUN | Medical Physicist | $102,898.97 | $304.38 |
| LACHANCE | MARY JON | Proj. Mgr, RT & Physicist Recruitment | $115,905.59 | $0.00 |
| LADA | BARBARA | Radiation Oncologist | $262,054.24 | $0.00 |
| LAM | KIT YING | Senior Medical Physicist | $126,414.90 | $348.99 |
| LAURIE | SCOTT | Medical Oncologist | $127,898.20 | $444.33 |
| LESZCZYNSKI | KONRAD | Chief Physicist | $149,176.69 | $375.07 |
| LEVIN | LESLIE | Sr. Medical Advisor | $283,458.43 | $540.94 |
| LEVINE | MARK | Medical Oncologist | $163,033.90 | $0.00 |
| LEWIS | CRAIG | Physicist | $115,683.35 | $350.31 |
| LIGHTSTONE | ALEXANDER | Physicist | $110,753.04 | $338.94 |
| LOFTERS | WYCLIFFE | Head, Medical Oncology | $175,383.94 | $540.94 |
| LOGAN | DIANE | Head, Medical Oncology | $179,099.07 | $542.13 |
| LOHMANN | REINHARD | Medical Oncologist | $163,576.03 | $542.13 |
| LOPEZ | PEDRO | Medical Oncologist | $234,991.97 | $438.86 |
| LUKKA | HIMU | Head, Radiation Oncology | $144,033.48 | $362.58 |
| MACDONALD | DAVID | Medical Oncologist | $163,576.03 | $542.13 |
| MACKENZIE | ROBERT | Radiation Oncologist | $102,738.79 | $337.62 |
| MACKILLOP | WILLIAM | Head, Community Health & Epidemiology | $148,509.68 | $387.82 |
| MADARNAS | YOLANDA | Medical Oncologist | $147,379.77 | $525.54 |
| MAH | KATHERINE | Senior Medical Physicist | $125,331.41 | $0.00 |
| MAI | VERNA | Director, Screening Programs | $183,607.90 | $540.94 |
| MAJOR | PIERRE | Medical Oncologist | $163,577.61 | $543.71 |
| MALONE | SHAWN | Radiation Oncologist | $112,624.70 | $337.07 |
| MARCELLUS | DEBORAH | Haematologist | $163,033.90 | $0.00 |
| MAROUN | JEAN | Medical Oncologist | $172,795.16 | $541.58 |
| MATHESON | GARTH | Director, Regional Planning & Admin | $108,135.59 | $334.32 |
| MATHEWS | JOHN | Medical Oncologist | $158,326.10 | $487.95 |
| MCGHEE | PETER | Chief Physicist | $148,188.84 | $382.15 |
| MCGURK | FRANCIS | Radiation Oncologist | $149,100.70 | $0.00 |
| MEYER | RALPH | Haematologist | $163,577.61 | $543.71 |
| MOULIN | DWIGHT | Medical Oncologist | $133,111.88 | $478.71 |
| MUI | JIM | Radiation Oncologist | $131,230.74 | $300.86 |
| NEVILLE | ALAN | Medical Oncologist | $163,577.61 | $543.71 |
| NOBLE | JONATHAN | Medical Oncologist | $188,192.74 | $429.98 |

## Cancer Care Ontario

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| O'BRIEN | PETER | Manager, Physics | $134,798.68 | $415.53 |
| OKAWARA | GORDON | Radiation Oncologist | $127,118.05 | $344.65 |
| OSBORNE | RAYMOND | Gynaecological Oncologist | $112,802.44 | $449.47 |
| OSTAPIAK | OREST | Physicist | $114,236.94 | $325.10 |
| PANJWANI | DILIP | Radiation Oncologist | $116,544.39 | $336.78 |
| PATEL | MALTI | Radiation Oncologist | $110,514.07 | $344.65 |
| PATTERSON | MICHAEL | Head, Medical Physics | $134,374.00 | $415.99 |
| PERRY | GAD | Radiation Oncologist | $110,075.37 | $337.07 |
| PETERS | VICTOR | Physicist | $129,502.13 | $393.73 |
| PRICHARD | HUGH | Radiation Oncologist | $221,408.47 | $387.82 |
| PRITCHARD | KATHLEEN | Head, Clinical Trials & Epidemiology | $178,607.12 | $542.06 |
| PROSS | DIANE | Reg'l Med. Coord, OBSP/Clinical Asst. | $127,623.37 | $394.87 |
| PROVOST | DANIEL | Medical Physicist | $104,596.66 | $286.64 |
| RAAPHORST | PETER | Head, Medical Physics | $134,944.55 | $418.54 |
| RAJASINGHAM | RAJ | General Practioner in Oncology | $114,151.68 | $352.92 |
| RAPLEY | PATRICK | Medical Physicist | $117,527.63 | $329.08 |
| RAWLINSON | ALAN | Project Mgr, Medical Physics | $135,607.43 | $744.90 |
| REAUME | NEIL | Medical Oncologist | $108,591.53 | $384.93 |
| REID | TRUDY | Director, Regional Planning & Admin | $113,187.42 | $323.99 |
| REITER | HAROLD | Radiation Oncologist | $130,184.53 | $344.65 |
| ROBERTS | WAYNE | Senior Manager, Information Systems | $119,421.97 | $324.68 |
| ROBILLARD | LUCILE | General Practitioner in Oncology | $112,000.78 | $352.92 |
| ROBINS | JEAN | Medical Physicist | $112,358.36 | $350.75 |
| SAGAR | STEPHEN | Radiation Oncologist | $114,280.66 | $365.07 |
| SAMANT | RAJIV | Radiation Oncologist | $119,475.45 | $337.07 |
| SATHYA | JINKA | Radiation Oncologist | $123,528.40 | $344.65 |
| SAUNDERS | DEBORAH | Medical Head, Dental Oncology | $123,844.17 | $301.00 |
| SAWKA | CAROL | VP, Regional Cancer Services | $218,679.81 | $533.81 |
| SCHNEIDER | KENNETH | Radiation Oncologist | $146,778.49 | $320.14 |
| SCHREINER | JOHN | Chief Physicist | $123,615.44 | $382.63 |
| SEGAL-NADLER | ROANNE | Medical Oncologist | $131,712.44 | $459.01 |
| SENTHELAL | SENTI | Radiation Oncologist | $173,611.86 | $330.33 |
| SETO | JOYCE | Project Manager, Information Systems | $102,794.29 | $0.00 |
| SEXTON | FRED | General Practitioner in Oncology | $107,685.76 | $332.48 |
| SHARMA | VIJESHWAR | Physicist | $104,200.00 | $190.81 |
| SHEHATA | SARWAT | Radiation Oncologist | $178,066.90 | $378.10 |
| SHELLEY | WENDY | Radiation Oncologist | $128,049.00 | $387.82 |
| SHUMAK | RENE | Radiologist In Chief | $120,404.68 | $370.86 |
| SIMUOVIC | MARKO | Surgical Oncologist | $157,577.61 | $543.71 |
| SINGH | GURMIT | Director, Research | $120,896.32 | $373.95 |
| SIXEL | KATHARINA | Senior Physicist | $107,246.17 | $340.59 |
| SKOT | JANICE | VP, Regional Cancer Services | $130,751.63 | $418.98 |
| SLINGERLAND | JOYCE | Scientist | $151,711.20 | $337.62 |
| SMITH | ANNE | VP, Regional Cancer Services | $188,033.96 | $540.94 |
| SNIDER | ANNE | Director, Regional Planning & Admin | $104,934.60 | $316.74 |
| SPANER | DAVID | Scientist | $191,826.02 | $542.06 |
| SPRINGER | COLVIN | Radiation Oncologist | $134,935.64 | $320.14 |
| STERN | HARTLEY | VP, Regional Cancer Services | $170,033.88 | $0.00 |
| STEVENS | ROBERT | Medical Oncologist | $161,336.11 | $538.58 |
| STEWART | DAVID | Medical Oncologist | $162,653.90 | $541.58 |

**Cancer Care Ontario**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| SZABO | JOSEPH | Physicist | $114,802.68 | $348.84 |
| SZANTO | JANOS | Senior Medical Physicist | $125,403.23 | $396.44 |
| TAYLOR | DONALD | VP, HR & Organizational Development | $166,418.84 | $371.40 |
| TENHUNEN | LINDA | General Practioner in Oncology | $140,399.75 | $309.08 |
| TOMIAK | ANNA | Medical Oncologist | $156,995.39 | $517.75 |
| TOMIAK | EVA | Medical Oncologist | $133,815.53 | $203.51 |
| TOUCHIE | MICHAEL | General Practitioner in Oncology | $113,732.29 | $352.92 |
| TOZER | RICHARD | Medical Oncologist | $163,577.61 | $543.71 |
| TRUDEAU | MAUREEN | Head, Medical Oncology | $129,813.14 | $542.06 |
| TURLEY | EVA | Senior Scientist | $105,358.38 | $324.46 |
| VAN DYKE | JAKE | Chief Physicist II | $134,690.11 | $415.82 |
| VANDENBERG | THEODORE | Medical Oncologist | $163,576.03 | $542.13 |
| VELDHUIS | KEIMPE | General Practitioner in Oncology | $134,608.70 | $414.94 |
| VERGIDIS | DIMITRIOS | Head, Systemic Therapy | $246,717.53 | $540.94 |
| VERMA | SHAILENDRA | Medical Oncologist | $163,009.38 | $541.58 |
| VINCENT | MARK | Medical Oncologist | $163,576.03 | $542.13 |
| VORUGANTI | SACHI | Radiation Oncologist | $104,234.44 | $344.65 |
| WADDELL | MARY | General Practitioner in Oncology | $113,798.36 | $0.00 |
| WANG | XIAOFANG | Medical Physicist | $116,600.85 | $328.30 |
| WANT | DAVID | Radiation Oncologist | $147,865.59 | $294.60 |
| WARNER | ELLEN | Medical Oncologist | $163,575.96 | $542.06 |
| WEINROTH | JUDITH | General Practioner in Oncology | $114,145.32 | $345.88 |
| WHELAN | TIM | Radiation Oncologist | $118,904.20 | $344.65 |
| WHITING | NATALIE | Palliative Care Physician | $119,860.02 | $367.77 |
| WHITTON | ANTHONY | Radiation Oncologist | $193,653.29 | $552.17 |
| WIERZBICKI | RAFAL | Medical Oncologist | $163,033.90 | $540.94 |
| WILKINS | DAVID | Senior Medical Physicist | $108,076.13 | $340.59 |
| WINQUIST | ERIC | Medical Oncologist | $163,576.03 | $542.13 |
| WOLCH | GARY | General Practitioner in Oncology | $136,053.98 | $414.94 |
| WONG | RAIMOND | Radiation Oncologist | $112,861.65 | $344.65 |
| WOO | MILTON | Senior Physicist | $128,576.21 | $396.45 |
| WRIGHT | JIM | Radiation Oncologist | $118,069.28 | $344.65 |
| WYMAN | DOUGLAS | Mgr, RT Technical Support | $126,183.78 | $390.95 |
| YAU | JONATHAN | Medical Oncologist/Director, Research | $193,367.50 | $540.94 |
| YEUNG | TAI | Senior Physicist | $125,078.99 | $356.00 |
| YOUNG | SCOTT | Medical Oncologist | $164,018.60 | $368.78 |
| YOUNG | VINCENT | Medical Oncologist | $162,653.90 | $541.58 |
| YOUSSEDF | YOUSSEF | Radiation Oncologist | $122,538.75 | $387.82 |
| YU | EDWARD | Radiation Oncologist | $108,281.46 | $337.62 |

Ontario Science Centre
An agency of the Government of Ontario

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Management and the Board of Trustees of the Ontario Science Centre are responsible for the financial statements and all other information presented in this Annual Report. The financial statements have been prepared by Management in accordance with generally accepted Canadian accounting principles, and, where appropriate, include amounts based on Management's best estimates and judgements.

The Ontario Science Centre is dedicated to the highest standards of integrity in its business. To safeguard assets, the Centre has a sound set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information.

The Board of Trustees meets quarterly to oversee the financial activities of the Centre, including an annual review of the financial statements and the Provincial Auditor's report.

The financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

Lesley Lewis

Lesley Lewis
Director General

Grant Troop
Director Business Planning and Operations

June 24, 2003

## AUDITOR'S REPORT

**To the Board of Trustees of the Centennial Centre of Science and Technology and to the Minister of Culture**

I have audited the balance sheet of The Centennial Centre of Science and Technology as at March 31, 2003 and the statements of operations, changes in equity, and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 24, 2003

J.R. McCarter, CA
Assistant Provincial Auditor

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Balance Sheet
### As at March 31, 2003

| | 2003<br>($ 000) | 2002<br>($ 000) |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and short-term investments | 8,836 | 4,201 |
| Accounts receivable | 728 | 127 |
| Prepaid expenses | 601 | 439 |
| Inventory of general stores and small tools | 124 | 113 |
| | 10,289 | 4,880 |
| **Capital Assets** (Note 4) | 15,201 | 16,338 |
| | 25,490 | 21,218 |
| **LIABILITIES, EQUITY AND FUND BALANCES** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | 1,531 | 1,108 |
| Deferred revenue | 4,596 | 2,235 |
| Due to the Province of Ontario | 2,464 | 1,434 |
| Loans Payable [Note 9(b) and (c)] | 417 | 167 |
| | 9,008 | 4,944 |
| **Long-Term Liabilities** | | |
| Loan Payable to Province of Ontario [Note 9(a)] | 5,300 | 5,300 |
| Loan Payable to Ontario Financing Authority [Note 9(b)] | 500 | — |
| Loan Payable [Note 9(c)] | 331 | 497 |
| | 6,131 | 5,797 |
| **Deferred Capital Contributions** (Note 5) | 6,636 | 7,599 |
| **Equity** | | |
| Invested in Capital Assets (Note 6) | 8,565 | 8,739 |
| Deficit | (5,255) | (6,266) |
| | 3,310 | 2,473 |
| **Special Purpose Fund** (Note 3) | | |
| Fund balance | 405 | 405 |
| | 25,490 | 21,218 |

See accompanying notes to financial statements.

Approved on behalf of the Centre:

Nancy Lockhart

Trustee

Trustee

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Statement of Operations
### For the Year Ended March 31, 2003

---

| | **2003<br>($ 000)** | **2002<br>($ 000)** |
|---|---|---|
| **Revenue** | | |
| Province of Ontario | | |
| Operating grant | 12,639 | 11,191 |
| Occupancy grant [Note 11(b)] | 3,968 | 3,968 |
| Other grants | 392 | 981 |
| "Agents of Change" Project – Corporate Donations (Note 12) | 294 | — |
| Fees | | |
| General Admission and Parking | 3,558 | 3,436 |
| Revenue from Ancillary Operations (Schedule 1) | 8,075 | 8,572 |
| | 28,926 | 28,148 |
| **Expenses** | | |
| General Operations | | |
| Exhibits and Programs | 929 | 1,192 |
| Marketing and Advertising | 1,407 | 1,294 |
| Visitor Services | 3,073 | 3,506 |
| Operations | 3,954 | 5,055 |
| Program Management | 3,066 | 3,183 |
| Administration | 2,271 | 2,229 |
| Retroactive Cost of Living Salary Adjustments | 782 | — |
| Agents of Change project (Note 12) | 294 | 1,013 |
| Occupancy Costs [Note 11(b)] | 4,137 | 3,703 |
| Expenses from Ancillary Operations (Schedule 1) | 6,679 | 6,483 |
| | 26,592 | 27,658 |
| **Net Income before amortization** | 2,334 | 490 |
| Amortization of deferred capital contribution (Note 5) | 963 | 968 |
| Amortization Expense | (2,460) | (2,655) |
| | (1,497) | (1,687) |
| **Net income (loss) for the year** | 837 | (1,197) |

See accompanying notes to financial statements.

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Statement of Changes in Equity
For the Year Ended March 31, 2003

| | 2003 ($ 000) | | | 2002 ($ 000) |
|---|---|---|---|---|
| | Equity Invested in Capital Assets | Deficit from Operations | Total | Total |
| Balance, beginning of year | 8,739 | (6,266) | 2,473 | 3,683 |
| Capital assets purchased | 1,323 | (1,323) | — | — |
| Net income (loss) for the year | (1,497) | 2,334 | 837 | (1,197) |
| Allocation of investment income to Special Purpose Fund | — | — | — | (13) |
| Balance, end of year | 8,565 | (5,255) | 3,310 | 2,473 |

### Statement of Cash Flows
For the Year Ended March 31, 2003

| | 2003 ($ 000) | 2002 ($ 000) |
|---|---|---|
| **Cash and short-term investments, beginning of year** | 4,201 | 5,322 |
| **Cash Flows from Operating Activities** | | |
| Net income (loss) for the year | 837 | (1,197) |
| Adjustments against net loss not requiring an outlay of cash | | |
| ▪ Amortization of capital assets | 2,460 | 2,655 |
| ▪ Amortization of deferred capital contribution | (963) | (968) |
| | 2,334 | 490 |
| Net change in non-cash working capital | 3,290 | 713 |
| Net cash generated through operating activities | 5,624 | 1,203 |
| **Cash Flow from Investing and Financing Activities** | | |
| Capital Assets acquisitions | (1,323) | (2,157) |
| Net increase in long-term liabilities | 334 | (167) |
| Net cash used in investing and financing activities | (989) | (2,324) |
| **Cash and short-term investments, end of year** | 8,836 | 4,201 |

See accompanying notes to financial statements.

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Schedule of Revenue and Expenses from Ancillary Operations For the Year Ended March 31, 2003

SCHEDULE 1

| | 2003 ($ 000) | | | 2002 ($ 000) | | |
|---|---|---|---|---|---|---|
| | Revenue | Expenses | Net | Revenue | Expenses | Net |
| School Admissions/Programs | 1,099 | 1,140 | (41) | 1,172 | 1,277 | (105) |
| Camps | 606 | 582 | 24 | 728 | 850 | (122) |
| Facility Rentals | 385 | 239 | 146 | 449 | 294 | 155 |
| Omnimax | 1,677 | 1,923 | (246) | 1,795 | 1,800 | (5) |
| International Sales and Rentals | 2,109 | 1,639 | 470 | 1,696 | 1,266 | 430 |
| Sponsorship/Donations | 632 | 391 | 241 | 1,161 | 556 | 605 |
| Memberships | 754 | 373 | 381 | 646 | 323 | 323 |
| Concessions | 476 | — | 476 | 531 | 1 | 530 |
| Interest | 280 | 12 | 268 | 330 | 33 | 297 |
| Special Purpose Fund | — | — | — | 13 | — | 13 |
| Other | 57 | 80 | (23) | 51 | 83 | (32) |
| Retroactive Cost of Living Salary Adjustments | — | 300 | (300) | — | — | — |
| TOTALS | 8,075 | 6,679 | 1,396 | 8,572 | 6,483 | 2,089 |

See accompanying notes to financial statements.

# THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

## Notes to Financial Statements
## March 31, 2003

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## 1. NATURE OF THE BUSINESS

The Centennial Centre of Science and Technology, commonly known as the Ontario Science Centre, was established under *The Centennial Centre of Science and Technology Act*. The Centre's mission is 'To delight, inform and challenge visitors through engaging and thought-provoking experiences in science and technology'. The general operations of the Centre are supported by operating grants from the Province, by admission fees and by other revenues earned through ancillary business operations. Revenues and expenses related to ancillary business operations are reported on Schedule 1 of the Financial Statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Accounting

The financial statements of the Centre have been prepared in accordance with Canadian generally accepted accounting principles.

### (b) Inventory

Inventory is valued at the lower of cost or replacement cost.

### (c) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the assets as indicated below:

| | |
|---|---|
| Omnimax Theatre Leasehold Improvements | 20 years |
| Leasehold Improvements | 10 years |
| Exhibits | 10 years |
| Exhibits – Rentals | 4 or 5 years |
| Furniture, Fixtures and Equipment | 5 years |
| Computer Equipment | 3 years |

The land on which the Centre is located is leased from the City of Toronto for $1 per annum on a 99-year lease which commenced July 1, 1965. The Ontario Realty Corporation owns the buildings which house the Centre.

### (d) Pledges

Pledges to donate funds are included in income when received.

### (e) Revenue Recognition

Revenue on exhibits manufactured for sale is recognized on a percentage of completion basis.

### (f) Deferred Revenue

Deferred revenue is comprised of unspent ministry grants that were provided for specific projects and deposits for future exhibit rentals.

### (g) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

## 3. SPECIAL PURPOSE FUND ADMINISTRATION

The use of certain sources of revenue may be restricted for a specific purpose by external contributors. The Board of Trustees can spend any funds not otherwise restricted by external contributors for any purpose, provided the expenditures promote the objectives of the Centre.

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Notes to Financial Statements
March 31, 2003

As at March 31, 2003, $67,320 (2002 – $67,320) of the special purpose fund balance was restricted by external contributors for use in supported activities.

## 4. CAPITAL ASSETS

Capital assets consists of the following:

| | 2003 ($ 000) | | | 2002 ($ 000) |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Exhibits | 6,319 | 4,285 | 2,034 | 2,156 |
| Exhibits – Rentals | 3,823 | 1,205 | 2,618 | 2,366 |
| Omnimax Theatre Leasehold Improvements | 14,560 | 5,096 | 9,464 | 10,192 |
| Leasehold Improvements | 3,738 | 2,701 | 1,037 | 1,488 |
| Furniture, Fixtures and Equipment | 209 | 161 | 48 | 99 |
| Computer Equipment | — | — | — | 37 |
| | 28,649 | 13,448 | 15,201 | 16,338 |

## 5. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the amount of donations and government grants received and used to acquire capital assets but not yet recognized as revenue. Revenue will be recognized over the same period as the expected life of the capital assets to which they relate, in order to properly match revenues with costs. The changes in the deferred contributions balance are as follows:

| | 2003 ($ 000) | 2002 ($ 000) |
|---|---|---|
| Balance, beginning of year | 7,599 | 8,567 |
| Amortization of deferred capital contributions | (963) | (968) |
| Balance, end of year | 6,636 | 7,599 |

## 6. EQUITY INVESTED IN CAPITAL ASSETS

Equity invested in capital assets represents the following:

| | 2003 ($ 000) | 2002 ($ 000) |
|---|---|---|
| Capital assets, net | 15,201 | 16,338 |
| Less amount financed by deferred capital contributions | (6,636) | (7,599) |
| | 8,565 | 8,739 |

## 7. PROPERTY MAINTENANCE AND REPAIRS

Certain maintenance and repair expenses of the Centre are absorbed by the Province of Ontario and are not included in the Statement of Operations.

## 8. PENSION PLAN

The Centre provides pension benefits for substantially all its permanent employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund)

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Notes to Financial Statements
### March 31, 2003

which are multiemployer defined benefit plans established by the Province of Ontario. These plans are accounted for as defined contribution pension plans as the Centre has insufficient information to apply defined benefit plan accounting. The contributions noted below represent the Centre's expenses for the plans during the year.

The Centre's contributions related to the pension plans for the year were $787,625 (2002 – $724,000). These contributions have been included in salaries and employee benefits disclosed in Note 10.

In addition, the cost of post-retirement non-pension benefits were paid by Management Board Secretariat and are not included in the statement of operations and retained earnings.

### 9. LOANS PAYABLE

**(a) Loan from Province of Ontario**

The Province made an interest-free repayable loan of $5,300,000 to the Centre to construct the Omnimax Theatre. The Centre shall repay this loan by annual payments commencing in 1999/2000 in amounts equal to 50% of the average annual profits received by the Centre from the Omnimax Theatre during the previous two fiscal years, if any. Such annual payments shall continue until the principal of the loan is repaid.

**(b) Loan from the Ontario Financing Authority**

During the year, the Ontario Financing Authority (OFA) lent the Centre $1,000,000, at short term interest rates calculated by the OFA and payable monthly. The Centre had repaid $250,000 of the loan balance by March 31, 2003. The remaining balance is to be repaid in $250,000 installments on each of March 31, 2004, 2005 and 2006.

**(c) Food Service Agreement**

The Centre entered into a 10-year agreement with a food services company to provide food services until May 31, 2006. The company contributed approximately $1.5 million to the Centre for the construction of new restaurants and other food service related facilities, as stipulated under the terms of the agreement.

Under the terms of the agreement, the annual net profit from the food and beverage operations managed by the company are to be shared between the company and the Centre in accordance with a formula in the agreement. The agreement specifies certain fixed payments to the company as follows: (1) an annual management fee, starting at $130,000 in 1996/97, reduced by $10,000 for each of the following nine years; and (2) a refund of the $1.5 million contribution without interest in nine equal installments, which started in 1997/98.

### 10. BREAKDOWN OF EXPENSES

Expenses are reported in the Statement of Operations on a functional basis. Total expenses by type are as follows:

| | 2003<br>($ 000) | 2002<br>($ 000) |
|---|---|---|
| Salaries and Benefits | 15,561 | 15,509 |
| Other Direct Operating Expenses | 11,031 | 12,149 |
| | 26,592 | 27,658 |

Revenue and expenses were affected by the closure of the Centre from March 13 to May 9, 2002 due to the OPSEU strike.

### 11. COMMITMENTS AND CONTINGENCIES

**(a) Imax Dome Projection System Maintenance Agreement**

The Centre has a ten-year agreement expiring in December 2006, with an automatic renewal for one further 10-year term, for leasing and servicing of an Imax Dome Projection System. The agreement commits the Centre to: (1) monthly rental payments to be calculated in accordance with a formula based on admission revenue; and (2) an annual maintenance fee of $66,000 (adjusted to reflect changes in the Consumer Price Index for Toronto).

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Notes to Financial Statements
### March 31, 2003

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**(b) Occupancy Cost**

Starting April 1, 1998, the Ontario Realty Corporation started to charge the Centre an accommodation fee for occupying its facilities. The accommodation charge is provided for in a five-year agreement, which ended on March 31, 2003, and is to cover rent, taxes, maintenance and certain operating costs. The Centre receives a Ministry grant each year to fund this expenditure.

The Centre also has a five-year lease agreement with the City of Toronto for the Centre's Parking Lot. The minimum lease payments for the remaining period of the lease is $10,000.

**(c) Equipment Leases**

The Centre leases some of its equipment on an operating lease basis. Total lease commitments for the next two years are as follows:

| | ($ 000) |
|---|---|
| 2003/04 | 234 |
| 2004/05 | 141 |
| | 375 |

## 12. PLEDGES FOR MAJOR CAPITAL PROJECT

The Centre has embarked on a $40 million capital project called Agents of Change. The project will focus on innovation and will renew about one quarter of the Centre's public space, including the creation of seven new Experience Areas. Funding for the project is twofold—private sector and government funding. In the Provincial Budget of May 2000, the province announced that the Ontario Science Centre would receive $15 million as a grant from the SuperBuild Fund, contingent on the Centre receiving matching funding from the private sector. As at March 31, 2003 the Centre has agreements in place from the private sector for funds greater than $15 million. As a result, the province has committed $15 million through an agreement with the Centre. In addition to receipts of $1.9 million to March 31, 2003, pledges from the private sector and the province for the next five years are as follows:

| | ($ 000) |
|---|---|
| 2003/04 | 5,861 |
| 2004/05 | 8,359 |
| 2005/06 | 9,358 |
| 2006/07 | 6,355 |
| 2007/08 | 251 |
| | 30,184 |

## 13. COMPARATIVE FIGURES

The March 31, 2002 comparative figures have been reclassified where necessary to conform to the current year's presentation.

**Ontario Science Centre**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| BENNETT | JOANN | Director, Business Development | $100,254.96 | $200.22 |
| GORECKI | BERNARD | Director, Marketing & Visitor Services | $109,604.07 | $209.58 |
| HARDING | KATHLEEN | Human Resources Consultant | $112,407.55 | $151.63 |
| LEWIS | LESLEY | Director General & CEO | $144,065.15 | $290.28 |
| MARTIN | JENNIFER | Director, Visitor Experience | $102,865.05 | $203.66 |
| TROOP | GRANT | Director, Business Planning & Operations | $100,154.53 | $197.94 |

Deloitte & Touche LLP
55 King St. W
Suite 700
Kitchener ON N2G 4W1

Tel: (516) 749-3945
Fax: (516) 576-0209
www.deloitte.ca

**Deloitte & Touche**

## Auditors' Report

To Board of Directors of the Education Quality and Accountability Office

We have audited the balance sheet of the Education Quality and Accountability Office as at March 31, 2003 and the statement of revenue and expenditure for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting as disclosed in Note 2 to the financial statements.

Deloitte & Touche LLP

Chartered Accountants

May 30, 2003

# EDUCATION QUALITY AND ACCOUNTABILITY OFFICE

## Balance Sheet

**March 31, 2003**

| | 2003 | 2002<br>(Restated - Note 3) |
|---|---|---|
| **ASSETS** | | |
| Cash | **$ 5,042,006** | $ 8,499,084 |
| Accounts receivable | **3,505,377** | 233,387 |
| | **$ 8,547,383** | $ 8,732,471 |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities | **$ 7,966,247** | $ 13,311,871 |
| **EQUITY** | | |
| Surplus (Note 3) | **581,136** | (4,579,400) |
| | **$ 8,547,383** | $ 8,732,471 |

**APPROVED BY THE BOARD**

.................................... **Chair**

.................................... **Chief Executive Officer**

# EDUCATION QUALITY AND ACCOUNTABILITY OFFICE
## Statement of Revenue and Expenditure
**Year Ended March 31, 2003**

| | 2003 | 2002<br>(Restated - Note 3) |
|---|---|---|
| REVENUE | | |
| Ministry of Education | | |
| Base allocation | $ 47,550,000 | $ 46,550,000 |
| One-time allocations | 7,750,851 | 7,568,423 |
| Other | 511,605 | 1,536,441 |
| | 55,812,456 | 55,654,864 |
| EXPENDITURE | | |
| Salary, wages and benefits | 9,850,089 | 10,460,114 |
| Transportation and communications | 5,322,283 | 4,818,192 |
| Service and rental | 34,548,050 | 43,725,231 |
| Supplies and equipment | 931,498 | 1,275,733 |
| | 50,651,920 | 60,279,270 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURE | 5,160,536 | (4,624,406) |
| ACCUMULATED SURPLUS (DEFICIT), BEGINNING OF YEAR | (4,579,400) | 45,006 |
| ACCUMULATED SURPLUS (DEFICIT), END OF YEAR | $ 581,136 | $ (4,579,400) |

# EDUCATION QUALITY AND ACCOUNTABILITY OFFICE
## Notes to the Financial Statements
**March 31, 2003**

### 1. DESCRIPTION OF OFFICE

The Education Quality and Accountability Office was established by the Province of Ontario by the "*EQAO Act*", June 1996. It was created to assure greater accountability and contribute to the enhancement of the quality of education in Ontario. This is done through assessments and reviews based on objective, reliable and relevant information, and the timely public release of that information along with recommendations for system improvement.

### 2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles for public sector entities except for the following significant accounting policy.

*Capital assets*

Capital assets are expensed in the year of acquisition. As most assets are leased, capital assets expensed are minor.

### 3. PRIOR PERIOD ADJUSTMENT

Effective for the year ending March 31, 2003, the Office adopted the accrual method of accounting as in accordance with Canadian generally accepted accounting principles for public sector entities as directed by the Ministry of Education.

Prior to the adoption of the accrual method, the financial statements were prepared with the basis of accounting that was common practice of the Government of Ontario, which included recording revenue and expenses on a cash basis with the exception of payroll expenses.

As a result of this change in accounting policy, certain expenses which were paid in fiscal 2003 but related to activities of the 2002 program, were added to the 2002 accounts payable and expense accounts. Accordingly, expenses in the 2002 year increased by $4,624,406 and surplus at the end of the year decreased by the same amount.

Also during the year, the Office was reassessed employment taxes on certain contracted staff. For the fiscal years ended March 2000 and 2001, the total assessment was $1,604,450 and was completely funded. Accordingly, no adjustment has been made to the prior year surplus.

# EDUCATION QUALITY AND ACCOUNTABILITY OFFICE
## Notes to the Financial Statements
March 31, 2003

### 4. STATEMENT OF CASH FLOW

A statement of cash flow has not been presented as it would not provide any additional useful information.

### 5. LEASE COMMITMENTS

The minimum annual lease payments related to the office lease and office equipment for the next two years are as follows:

| | |
|---|---|
| **2004** | **$ 75,445** |
| **2005** | **$ 26,413** |

### 6. COMPARATIVE FINANCIAL STATEMENTS

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

**Education Quality & Accountability Office**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| JACKSON | MARGUERITE | Chief Executive Officer | $168,345.12 | $318.78 |
| JONES | RICHARD | Project Manager | $101,273.92 | $201.12 |
| KIDD | CONNIE | Mgr, Assess. Data Proj., Tech. Qty | $152,693.56 | $184.50 |
| MADDEN | PATRICK | Director, Data & Operations | $101,844.09 | $98.36 |

BDO

## Greater Toronto Transit Authority

## Auditors' Report

**To the Members of the**
**Greater Toronto Transit Authority**

We have audited the balance sheet of Greater Toronto Transit Authority as at March 31, 2003 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Toronto, Ontario
June 6, 2003

# Greater Toronto Transit Authority
## Balance Sheet

| March 31 | 2003 | 2002 |
|---|---|---|
| | (in thousands of dollars) | |
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents | $ 43,030 | $ 80,092 |
| Short term investments (Note 1) | 10,901 | 3,981 |
| Accounts receivable | 4,474 | 6,543 |
| Contributions due from Province | 14,433 | - |
| Contributions due from Municipalities | 9,433 | - |
| Spare parts and supplies | 1,994 | 1,771 |
| Prepaid expenses | 1,170 | 1,961 |
| | 85,435 | 94,348 |
| **Capital assets** (Note 2) | 838,205 | 767,100 |
| **Long term lease** (Note 3) | 31,804 | 32,131 |
| | $ 955,444 | $ 893,579 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ 36,424 | $ 31,256 |
| Unearned revenue in respect of tickets sold and not used | 5,259 | 3,839 |
| Due to Cities of Toronto and Hamilton and Regional Municipalities of Durham, Halton, Peel and York | - | 6,542 |
| Due to Province of Ontario (Note 4) | 4,380 | - |
| | 46,063 | 41,637 |
| **Employee future benefits payable** (Note 5) | 19,411 | 17,511 |
| | 65,474 | 59,148 |
| **Net Assets** | | |
| Net assets invested in capital assets | 838,205 | 767,100 |
| Net assets invested in intangible assets | 31,804 | 32,131 |
| Net assets held in reserves (Note 6) | 26,332 | 41,571 |
| Deficiency of net assets | (6,371) | (6,371) |
| | 889,970 | 834,431 |
| | $ 955,444 | $ 893,579 |

On behalf of the Members:

Director

Director

BDO

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# Greater Toronto Transit Authority
## Statement of Operations

| | For the Year Ended March 31, 2003 | For the Three Months Ended March 31, 2002 |
|---|---|---|
| | (in thousands of dollars) | |
| **Revenue** | | |
| Operating revenue | $ 182,620 | $ 42,710 |
| Investment income | 953 | 245 |
| Contribution from Municipalities | 16,850 | - |
| Contribution from Government of Canada | 133 | - |
| Contribution from the Province of Ontario | 133,168 | 50,201 |
| Return of contribution to the Province of Ontario | (4,380) | - |
| | 329,344 | 93,156 |
| **Expenses** | | |
| Labour and administration | 69,923 | 16,738 |
| Services | 10,872 | 2,452 |
| Supplies | 1,256 | 443 |
| Facility maintenance | 32,022 | 8,613 |
| Equipment maintenance | 32,635 | 8,004 |
| Operations | 69,038 | 15,229 |
| Amortization of capital assets | 57,732 | 13,260 |
| Amortization of intangible assets | 327 | 82 |
| | 273,805 | 64,821 |
| **Excess of revenues over expenses prior to capital asset additions** | $ 55,539 | $ 28,335 |

BDO

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# Greater Toronto Transit Authority
# Statement of Changes in Net Assets

| | | | | | For the Year Ended March 31, 2003 | For the Three Months Ended March 31, 2002 |
|---|---|---|---|---|---|---|
| | | | | | (in thousands of dollars) | |
| | Invested in Capital Assets | Invested in Long Term Lease | Net Assets Held in Reserves (Note 6) | Deficiency | Total | Total |
| **Balance**, beginning of period | $ 767,100 | $ 32,131 | $ 41,571 | $ ( 6,371 ) | $ 834,431 | $ 806,096 |
| **Excess (deficiency) of revenues over expenses prior to capital asset additions** | ( 57,732 ) | ( 327 ) | - | 113,598 | 55,539 | 28,335 |
| **Investment in capital assets** | 128,998 | - | - | ( 128,998 ) | - | - |
| **Disposal of capital assets** | ( 161 ) | - | - | 161 | - | - |
| **Transfers to reserves** (Note 6) | - | - | ( 15,239 ) | 15,239 | - | - |
| **Balance**, end of year | $ 838,205 | $ 31,804 | $ 26,332 | $ ( 6,371 ) | $ 889,970 | $ 834,431 |

BDO

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# Greater Toronto Transit Authority
# Statement of Cash Flows

| | For the Year Ended March 31, 2003 | For the Three Months Ended March 31, 2002 |
|---|---|---|
| | (in thousands of dollars) | |
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Excess of revenues over expenses | $ 55,539 | $ 28,335 |
| Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities | | |
| Amortization of capital and intangible assets | 58,059 | 13,342 |
| Loss (gain) on disposal of capital assets | 63 | (7) |
| Change in non-cash working capital balances | (14,903) | (3,347) |
| | 98,758 | 38,323 |
| **Investing activities** | | |
| Purchase of capital assets | (128,998) | (39,298) |
| Proceeds on capital assets disposals | 98 | 7 |
| Proceeds (purchase) of short term investments | (6,920) | 3,161 |
| | (135,820) | (36,130) |
| **Net increase (decrease) in cash and cash equivalents** | (37,062) | 2,193 |
| **Cash and cash equivalents,** beginning of year | 80,092 | 77,899 |
| **Cash and cash equivalents,** end of year | $ 43,030 | $ 80,092 |

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The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# Greater Toronto Transit Authority
# Summary of Significant Accounting Policies

**March 31, 2003**

**Purpose of Organization**

The Greater Toronto Transit Authority ("GTTA" or the "Authority") is a Crown agency carrying on business as "GO Transit". As a non-share capital corporation, GO Transit reports to the Ministry of Transportation ("MTO"). GO Transit operates an interregional public transit system consisting of integrated rail and bus corridors. The network of rail and bus services primarily serves communities across the Greater Toronto Area ("GTA") including the Cities of Toronto and Hamilton, and Regions of Halton, Peel, York, Durham, as well as Simcoe County, Dufferin County, Wellington County and the cities of Barrie and Guelph and the Town of Bradford-West Gwillimbury.

Prior to January 1, 2002, GO Transit reported to the Greater Toronto Services Board. On January 1, 2002, the GO Transit Act (2001) came into effect, and GO Transit reported to the Province of Ontario, through the Ministry of Transportation.

**Basis of Presentation**

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles for Not-For-Profit Organizations.

**Cash and Cash Equivalents**

Cash and cash equivalents are defined as highly liquid investments with original maturities of three months or less and consist of money market instruments.

**Short Term Investments**

Short term investments are stated at the lower of cost and market value and include amounts with original maturities greater than three months and less than one year.

**Spare Parts and Supplies**

Spare parts and supplies are carried at the lower of cost and replacement cost.

## Greater Toronto Transit Authority
## Summary of Significant Accounting Policies

**March 31, 2003**

**Capital Assets**

Capital assets are recorded at cost less accumulated amortization.

The Authority provides for the amortization of the various classes of assets over their estimated useful lives on a straight-line basis as follows:

| | |
|---|---|
| Buildings and equipment | |
| Shelters and ticket booths | 5 years |
| Other buildings | 20 years |
| Leasehold improvements | 20 years |
| Locomotives | 20 years |
| Other railway rolling stock | 25 years |
| Improvements to railway right-of-way and plant | 20 years |
| Trackwork and installation | 20 years |
| Buses | 12 years |
| Parking lots | 20 years |
| Sundry - Furniture | 12 years |
| - Other | 3-5 years |

Viability studies for future expansion represent costs deferred on a project-by-project basis until the viability of the respective project is determined. When the project is finalized, the costs are amortized based on a specific asset category. If a project is abandoned or the costs are considered to be unrecoverable, the deferred costs are charged to operations in the year the determination is made.

**Long term lease**

Long term lease represents the prepayment of the lease regarding Union Station. The amount is being amortized straight-line over 100 years, the term of the lease plus one renewal period.

**Employee Future Benefits**

The Authority provides pension plan benefits through the multi-employer OMERS Pension Fund. The expense for the year equals the required contribution for the year.

The Authority also provides other employee future benefits using the accrued benefit method which reflects the projected benefits for services rendered to date. Adjustments arising from employee benefit plan amendments, experience gains and losses and changes in assumptions are amortized to earnings over the estimated average remaining service lives of the members.

**Commuter Services Revenue**

Revenue is recognized when the transportation service is provided. Unearned amounts are reflected in the balance sheet as current liabilities.

**Contributions**

The Authority follows the deferral method of accounting for contributions. Contributions are recognized as revenue in the year in which the related expenses are incurred. Operating contributions paid by the Province of Ontario are revenues.

# Greater Toronto Transit Authority
## Summary of Significant Accounting Policies

**March 31, 2003**

**Net Assets held in Reserves**

Net assets held in eserves are internally restricted to provide a funding source for planned future obligations and to provide flexibility against uncertainties which may arise. All reserves are approved by the GTTA board and are disclosed on the balance sheet as equity.

The purpose of establishing the MCOR reserve is to assist in funding large capital expenditures.

The purpose of establishing the Employment Obligation reserve is to assist in funding general employment related obligations of the Authority.

The purpose of establishing the Self Insured Retention reserve is to assist is funding any claims against the self-insured retention layer of the Authority's insurance program.

The purpose of the Stabilization reserve is to assist in funding fluctuations in operating and capital budgets of the Authority from year to year.

All transactions of the reserves require approval by the GTTA board. They are reported in the statement of changes in net assets.

Interest income is allocated to the reserves on a pro rata basis. In the current year, no interest income was allocated to the reserves.

**Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include funding, the recovery of capital assets, unearned revenue, amortization of capital assets and contingencies. Actual results could differ from those estimates as additional information becomes available in the future.

**Financial Instruments**

Unless otherwise noted, it is management's opinion that the Authority is not exposed to significant interest rate, currency or credit risks arising from its financial instruments. In management's opinion, the carrying amount of the Authority's financial instruments approximate fair value unless otherwise noted.

## Greater Toronto Transit Authority

## Notes to Financial Statements

**March 31, 2003** **(in thousands of dollars)**

### 1. Short Term Investments

Short term investments are comprised of Federal and Provincial Treasury Bills and Banker's Acceptances from Canadian Chartered Banks with maturities up to July 2003 and effective interest rates ranging from 2.7% to 3.0% (2002 - 1.9% to 2.1%).

### 2. Capital Assets

| | | **2003** | | 2002 |
|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | Cost | Accumulated Amortization |
| Land | **$ 163,643** | **$ -** | $ 156,922 | $ - |
| Buildings | **255,864** | **130,378** | 245,953 | 119,420 |
| Leasehold improvements | **24,418** | **12,384** | 24,344 | 11,202 |
| Locomotives and other railway rolling stock | **220,342** | **68,674** | 146,204 | 57,753 |
| Improvements to railway right-of-way plant | **430,721** | **275,781** | 417,407 | 259,893 |
| Trackwork and installation | **86,130** | **41,542** | 71,911 | 38,284 |
| Construction-in-progress | **53,545** | **-** | 80,695 | - |
| Buses | **106,752** | **46,477** | 95,504 | 42,507 |
| Parking lots | **100,512** | **38,909** | 83,374 | 34,980 |
| Sundry | **62,718** | **52,295** | 59,781 | 50,956 |
| | **1,504,645** | **666,440** | 1,382,095 | 614,995 |
| | | **$ 838,205** | | $ 767,100 |

The Authority capitalizes engineering payroll costs where time has been spent on particular capital projects. The amount capitalized for the year ended March 31, 2003 was $1,989 (2002 - $357).

### 3. Long Term Lease

| | | **2003** | | 2002 |
|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | Cost | Accumulated Amortization |
| Leasehold, Union Station | **$ 32,703** | **$ 899** | $ 32,703 | $ 572 |
| | | **$ 31,804** | | $ 32,131 |

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# Greater Toronto Transit Authority

## Notes to Financial Statements

**March 31, 2003** **(in thousands of dollars)**

**4. Due to Province**

The amounts owing to the Province of Ontario represents contributions received in fiscal 2002 -2003 in excess of funds required.

**5. Employee Future Benefits**

**Pension Plan**

The Authority provides pension benefits for substantially all of its permanent employees through participation in the Ontario Municipal Employees Retirement System (OMERS Pension Fund). The Authority has expensed $258 (2002 - $nil) in pension contributions for the year ended March 31, 2003. There was no funding of pension benefits for the period ended March 31, 2002, because of a pension holiday for contributions which was in effect until December 31, 2002.

**Other Employee Future Benefits**

The Authority provides post-retirement life and health benefits, Workplace Safety & Insurance Board ("WSIB") liabilities and retiree severance benefits. The plan is unfunded and requires nominal contributions from employees. Substantially all full time active employees are eligible for life and health benefits. A limited number of employees are eligible for severance benefits.

In 2003, the Authority's management had an actuarial valuation done for accounting purposes, resulting in an accrued benefit obligation at March 31, 2003 of $20,297 and a remaining unamortized actuarial loss balance of $886.

For the purpose of accounting for post-retirement non-pension benefits, the Authority has adopted the policy to recognize gains and losses in a year in excess of the minimum amortization (which is the portion of accumulated gains and losses which exceed 10% of the accrued benefit obligation, divided by the expected average remaining service life).

Assumptions

Discount Rate - 6.75%
Expected average remaining service life - 11 years
Weighted average health rate - 8% per annum grading down to 4% in 2 years

| | **For the Year Ended March 31, 2003** | For the Three Months Ended March 31, 2002 |
|---|---|---|
| Current service cost | **$ 1,231** | $ 308 |
| Interest cost | **1,340** | 307 |
| Benefits payments | **(562)** | (132) |

# Greater Toronto Transit Authority
# Notes to Financial Statements

**March 31, 2003** **(in thousands of dollars)**

## 6. Net Assets held in Reserves

| | MCOR | Employment Obligation | Self Insured Retention | Stabilization | Total Reserves |
|---|---|---|---|---|---|
| **Balance,** beginning of year | $ 36,290 | $ 889 | $ 2,013 | $ 2,379 | $ 41,571 |
| **Expenditures** | 15,239 | - | - | - | 15,239 |
| **Balance**, end of year | $ 21,051 | $ 889 | $ 2,013 | $ 2,379 | $ 26,332 |

The MCOR reserve expenditures incurred during the year represents a down payment for the purchase of 20 bi-level rail cars.

## 7. Commitments

a) The minimum lease payments for premises in each of the next five years and thereafter are as follows:

| | |
|---|---|
| 2003 | $ 2,753 |
| 2004 | 2,400 |
| 2005 | 2,053 |
| 2006 | 1,990 |
| 2007 | 1,956 |
| Thereafter | 3,651 |
| | $ 14,803 |

b) The Authority has also committed approximately $97,756 for various capital asset additions over the next fiscal year.

c) The Authority has a lease with TATOA for 243 rail cars and 42 locomotives for total lease payments of one dollar per year terminating on July 1, 2006.

d) A significant amount of the services provided by the Authority are operated and maintained by outside parties using rolling stock owned or leased from Toronto Area Transit Operating Authority Act ("TATOA") by the Authority. These services are governed by the agreements with the Canadian National Railway Company ("CN"), Canadian Pacific Railway Company ("CP") and Bombardier Inc. and by a number of minor service agreements. The Authority has entered into the following major agreements for approximately $75,800 per year:

(i) Master Operating Agreement with CN terminating on May 31, 2008.

(ii) Commuter Agreement with CP terminating December 31, 2003.

(iii) Equipment Maintenance Contract with Bombardier terminating on May 31, 2006.

## Greater Toronto Transit Authority
## Notes to Financial Statements

**March 31, 2003** **(in thousands of dollars)**

### 8. Contingent Liability

Various lawsuits have been filed against the Company for incidents which arose in the ordinary course of business. In the opinion of management and legal counsel, the outcome of the lawsuits, now pending, is not yet determinable. Should any loss result from the resolution of these claims, such loss will be charged to operations in the year of resolution.

**GO Transit**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| BOYLE | ROBERT | Director, Facilities Services | $106,017.04 | $370.20 |
| CHUNG | FRANCES | Director, Financial Services | $110,636.06 | $369.84 |
| JENKINS | WILLIAM | Director, Customer Services | $100,210.07 | $349.92 |
| MCNEIL | GARY | Managing Director | $140,639.28 | $2,642.42 |
| NORMAN | JEAN | Director, Corporate Services | $112,941.83 | $377.40 |
| PERCY | GREGORY | Director, Rail Services | $100,891.06 | $352.32 |
| ROBINSON | ALLAN | Director, Bus Services | $103,287.77 | $360.60 |

# MANAGEMENT REPORT

**Management's Responsibility for Financial Reporting**

The accompanying financial statements of the Independent Electricity Market Operator are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Independent Electricity Market Operator are described in the Summary of Significant Accounting Policies contained in Note 2 in the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been prepared within reasonable limits of materiality and in light of information available up to January 28, 2003.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by PricewaterhouseCoopers LLP, a firm of independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles in Canada. The Auditor's Report, which follows, outlines the scope of their examination and their opinion.

INDEPENDENT ELECTRICITY MARKET OPERATOR

On behalf of management,

Dave Goulding

**Dave Goulding**
*President & Chief Executive Officer*

Gary Sherkey

**Gary Sherkey**
*Vice President, Finance, CFO and Treasurer*

Toronto, Canada
January 28, 2003

# AUDITORS' REPORT

**To the Board of Directors of the Independent Electricity Market Operator ("IMO")**

We have audited the statement of financial position of the IMO as at December 31, 2002 and the statements of operations and accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the IMO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the IMO as at December 31, 2002, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
January 28, 2003

# Statement of Operations and Accumulated Surplus

| (in thousands of Canadian dollars) | For the Year Ended December 31, 2002 | For the Year Ended December 31, 2001 |
|---|---|---|
| | $ | $ |
| REVENUES (Note 2(b)) | | |
| System fees | 146,650 | 120,300 |
| Other revenue | 2,734 | 938 |
| Ancillary services, rural rate assistance and remote subsidies | 83,436 | 250,104 |
| TOTAL REVENUES | **232,820** | **371,342** |
| EXPENSES | | |
| Cost of ancillary services, rural rate assistance and remote subsidies | 83,436 | 250,104 |
| Labour | 51,071 | 43,075 |
| Transition costs | 1,901 | 6,956 |
| Computer services and support | 11,038 | 14,044 |
| Telecommunications | 7,430 | 7,631 |
| Other costs | 11,129 | 10,817 |
| Amortization | 46,216 | 25,982 |
| TOTAL EXPENSES | **212,221** | **358,609** |
| **Net Income Before Interest** | **20,599** | **12,733** |
| Interest income | 2,737 | 3,072 |
| Interest expense | (22,225) | (14,757) |
| **NET INCOME FOR THE YEAR** | **1,111** | **1,048** |
| **ACCUMULATED SURPLUS - BEGINNING OF YEAR** | 9,604 | 8,556 |
| **ACCUMULATED SURPLUS - END OF YEAR** | **10,715** | **9,604** |

See accompanying notes to Financial Statements.

# Statement of Financial Position

| (in thousands of Canadian dollars) | As at December 31, 2002 | As at December 31, 2001 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| **Current assets** | | |
| Cash & cash equivalents | 47,818 | 116,109 |
| Amount due under Transitional Revenue Allocation Agreement | - | 33,468 |
| Temporary investments | 65,158 | - |
| Prepaid expenses & receivables | 18,174 | 6,175 |
| | **131,150** | **155,752** |
| **Property & Equipment** (Note 3) | | |
| In service | 237,001 | 251,072 |
| Construction-in-progress | 14,243 | 6,689 |
| | **251,244** | **257,761** |
| **Other Assets** | | |
| Prepaid pension expense (Note 6) | 24,447 | 24,103 |
| | **24,447** | **24,103** |
| **TOTAL ASSETS** | **406,841** | **437,616** |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts payable & accrued liabilities (Note 4) | 15,775 | 49,421 |
| Accrued interest | 3,749 | 3,702 |
| Long-term debt payable within one year (Note 5) | 275,000 | - |
| | 294,524 | 53,123 |
| **Long-term Debt** (Note 5) | 78,200 | 353,200 |
| **Accrual for Employee Future Benefits Other than Pensions** (Note 6) | 23,402 | 21,689 |
| **TOTAL LIABILITIES** | **396,126** | **428,012** |
| **ACCUMULATED SURPLUS** | **10,715** | **9,604** |
| **TOTAL LIABILITIES & ACCUMULATED SURPLUS** | **406,841** | **437,616** |

See accompanying notes to Financial Statements.

On behalf of the Board:

James C. Baillie

Barry E. Chuddy

## Statement of Cash Flows

| (in thousands of Canadian dollars) | For the Year Ended December 31, 2002 | For the Year Ended December 31, 2001 |
|---|---|---|
| | $ | $ |
| **OPERATING ACTIVITIES** | | |
| Net income for the year | 1,111 | 1,048 |
| Adjustments for non-cash items: | | |
| Amortization | 46,216 | 25,982 |
| Increase in prepaid pension expense | (344) | (2,780) |
| Increase in accrual for employee future benefits other than pensions | 1,713 | 2,556 |
| | 48,696 | 26,806 |
| Changes in non-cash balances related to operations: | | |
| Increase/(Decrease) in accounts payable and accrued liabilities | (3,406) | 3,130 |
| (Increase)/Decrease in prepaid expenses and receivables | (11,999) | 1,018 |
| (Increase)/Decrease in amounts due under Transitional Revenue Allocation Agreement | 12,626 | (4,316) |
| | (2,779) | (168) |
| **Cash provided from operations** | **45,917** | **26,638** |
| **INVESTING ACTIVITIES** | | |
| Net purchase of temporary investments | (65,158) | - |
| Investment in property & equipment | (49,050) | (57,817) |
| **Cash used in investing** | **(114,208)** | **(57,817)** |
| **FINANCING ACTIVITIES** | | |
| Issue of long-term debt | - | 41,666 |
| **Cash provided from financing** | - | **41,666** |
| **NET CHANGE IN CASH & CASH EQUIVALENTS** | (68,291) | 10,487 |
| **CASH & CASH EQUIVALENTS - BEGINNING OF YEAR** | 116,109 | 105,622 |
| **CASH & CASH EQUIVALENTS - END OF YEAR** | **47,818** | **116,109** |

See accompanying notes to Financial Statements.

**Supplementary Information:**
(in thousands of Canadian dollars)

| | | |
|---|---|---|
| **Interest Paid** | **23,291** | **21,454** |

*INDEPENDENT ELECTRICITY MARKET OPERATOR*
*FINANCIAL STATEMENTS 2002*

## 1. NATURE OF OPERATIONS

Independent Electricity Market Operator (IMO) is a not-for-profit, non-taxable corporation, created by statute effective on April 1, 1999 pursuant to Part II of the *Electricity Act, 1998*. As set out in the *Electricity Act*, the IMO operates pursuant to a license granted by the Ontario Energy Board. The objects of the IMO as contained in the *Electricity Act*, are as follows:

- to exercise and perform the powers and duties assigned to the IMO under the *Electricity Act, 1998*, the market rules and license;
- to enter into agreements with transmitters giving the IMO the authority to direct the operations of their transmission systems;
- to direct the operations and maintain the reliability of the IMO-controlled grid to promote the purposes of the *Electricity Act, 1998*;
- to establish and operate the IMO-administered markets to promote the purposes of the *Electricity Act, 1998*;
- to collect and provide to the public information relating to the current and future electricity needs of Ontario and the capacity of the integrated power system to meet those needs;
- to participate in the development by any standards authority of standards and criteria relating to the reliability of the transmission systems;
- to work with the responsible authorities outside Ontario to co-ordinate the IMO's activities with their activities.

The North American electrical utility industry has undertaken initiatives to move away from traditional monopolies toward introducing competition into power generation. On October 30, 1998 the Government of Ontario enacted the Energy Competition Act, 1998 to restructure the business carried on by Ontario Hydro and introduce competition. On May 1, 2002 the Government of Ontario opened the competitive electricity market.

On December 9, 2002 the Government passed Bill 210, Electricity Pricing, Conservation and Supply Act, 2002. Bill 210, among other things, freezes the commodity cost of electricity for a portion of the competitive market, specifically low-volume and designated customers, until May 1, 2006. The price signals for the wholesale price of energy continue to be set in the market, utilizing methodologies and systems unchanged from those utilized prior to Bill 210. In addition, currently customers that are neither low-volume or designated customers continue to pay market prices, unchanged from prior to the passage of Bill 210.

The *Electricity Act*, specifically Section 19, requires on an annual basis, that the IMO submit its proposed expenditures, revenue requirements, and fees it proposes to charge during the coming year to the Ontario Energy Board (OEB) for review. Bill 210 amended Section 19 to provide that the submission may be made only with the approval of the Minister of Energy, and that the fees approved for the 2002 fiscal year shall apply to the fiscal 2003 year. As specified in the *Electricity Act*, any surplus generated shall be used by the IMO for the purposes of carrying out its objects under the Electricity Act. The IMO expects to recover any deficit in future system fees, subject to approval by the Ontario Energy Board.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of financial statement preparation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

### b) Revenue recognition

*INDEPENDENT ELECTRICITY MARKET OPERATOR*
*FINANCIAL STATEMENTS 2002*

In accordance with an agreement between the IMO and the other successor entities of Ontario Hydro, the IMO received system fees and ancillary service fees during the period up to market opening on May 1, 2002. Such fees were approved by the Ontario Energy Board (OEB) and were recognized as earned in accordance with the terms of the agreement.

Since opening of the IMO-administered markets on May 1, 2002, system fees earned by the IMO are based on approved rates for each megawatt of electricity withdrawn from the IMO-controlled grid. System fees are recognized as revenue at the same time as the electricity is withdrawn.

Since market opening, ancillary service transactions became those of the market participants rather than the IMO. These financial statements do not include the financial transactions of market participants within the IMO-administered markets.

### c) Transition costs and construction-in-progress

The IMO plays a key role in conjunction with market participants and other stakeholders in the development of the wholesale competitive electricity market in Ontario. As part of this role, the IMO is charged with developing and implementing the systems, including hardware and software, processes and procedures required to operate the competitive marketplace.

Costs relating to this initiative are capitalized to construction-in-progress, based on the expected future benefit, or charged to current operations as transition costs. Capitalized costs generally relate to the costs of physical facilities, hardware and software required for the operation of the market and include costs paid to vendors, internal and external labour, consultants, an applicable share of overhead, and an allocation of interest related to funds borrowed to finance the project. Costs relating to construction-in-progress are transferred to property and equipment in service when the asset under construction is deemed to be ready for use. Transition costs generally relate to the design of market rules, market and internal processes and procedures, and training and include costs for internal and external labour, consultants, and an applicable share of overhead.

### d) Property and equipment in service

Property and equipment are capitalized at cost, which comprises materials, labour, external support, overheads, and interest applicable to capital activities.

### e) Amortization

The capital cost of property and equipment in service is amortized on a straight-line basis over their estimated service lives.

The estimated service lives in years, from the date the assets were transferred from Ontario Hydro or subsequently acquired, are:

| Class | Estimated Average Service Life |
|---|---|
| Facilities | 41 |
| Data Acquisition and Computer Systems | 4 |
| Market Systems and Applications | 4 to 7 |
| Infrastructure and Other Assets | 4 to 10 |

Gains and losses on sales of property and equipment and losses on premature retirements are charged to operations as adjustments to amortization expense. Removal costs are charged to amortization expense as incurred.

The estimated service lives of property and equipment and the significant assumptions underlying the estimates of removal costs are subject to periodic review. The impacts of changes in the estimated lives of property and equipment are amortized on a prospective basis. The most recent review was completed in fiscal 2002.

### f) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, term deposits and other short term investments with original maturity dates of less than 90 days.

### g) Temporary Investments

Short-term money market investments with original maturities of 90 days or longer are classified as temporary investments and valued at amortized cost. Premiums and discounts are amortized to income using the constant yield method over the period to maturity.

### h) Pension and Other Post-Employment Benefits

The IMO's post-employment benefit programs include pension, group life insurance, health care, long-term disability and workers compensation benefits.

The IMO accrues obligations under pension and other post-employment benefit ("OPEB") plans and the related costs, net of plan assets. Pension fund assets are valued using market related values for equities, whereby fund assets are calculated using a five-year moving average of year-end market values, and market values for fixed income securities. Pension and OPEB expenses and obligations are determined annually by independent actuaries using the projected benefit method and management's best estimates using a measurement date of September 30.

Pension and OPEB expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions, and experience gains or losses, which are amortized on a straight line basis over the expected average remaining service life of the employees covered by the plan. Pension and OPEB expenses are recorded during the year in which employees render services.

### i) Fair value of financial instruments

The carrying amounts reported in the balance sheet for financial instruments, comprising current assets and current liabilities approximate to their fair values. The fair value of the long-term debt is not readily available.

### j) Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated in Canadian dollars at the rate prevailing at that date. Exchange gains and losses arising on settlement of foreign exchange transactions are reported in the statement of operations at the date at which the transactions are settled.

**k) Use of Estimates**

The preparation of the financial instruments in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements. Actual results could differ from those estimates.

## 3. PROPERTY AND EQUIPMENT

Interest capitalized to construction-in-progress during 2002 was $960,331 (2001 - $5,591,124).

## 4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

## 5. LONG-TERM DEBT

| (in thousands of Canadian dollars) | As at December 31, 2002<br>$ | As at December 31, 2001<br>$ |
|---|---|---|
| Notes payable | 353,200 | 353,200 |
| Less payable within one year | (275,000) | - |
| | **78,200** | **353,200** |

| (in thousands of Canadian dollars) | As at December 31, 2002<br>$ | As at December 31, 2001<br>$ |
|---|---|---|
| **Notes payable to** | | |
| Ontario Electricity Financial Corporation (OEFC) | 78,200 | 78,200 |
| The Province of Ontario | 275,000 | 275,000 |
| | **353,200** | **353,200** |

**Note payable to OEFC**

The long-term note payable to Ontario Electricity Finance Corporation (OEFC) is unsecured, bears interest at 7.9% per annum and is repayable in full on May 1, 2009. Interest accrues daily and is payable in arrears, in equal semi-annual payments on May 1 and November 1 of each year.

**Note payable to Province of Ontario**

The long-term note payable to the Province of Ontario is unsecured, and bears interest at 6.24%. Interest accrues daily and is payable in arrears, in equal semi-annual payments on May 3 and November 3 of each year. The loan is repayable in full on November 3, 2003.

The loan agreement provides for an extension of the repayment date if on or before October 27, 2003, the IMO is unable to obtain a credit rating, or has obtained a credit rating below a specific level, to the earlier of March 31, 2005 or six months after which a credit rating is either received or revised to a specific level. The loan will bear interest during the period of extension equal to the floating Bankers Acceptance rate plus 50 basis points.

### Credit facility

IMO has an unsecured, committed, and extendible 364-day revolving credit facility agreement with a Canadian chartered bank, under which the bank will make available to the IMO an amount up to $20 million. As at December 31, 2002 and 2001 no balance was drawn on the credit facility. Advances under this facility are available in Canadian dollars by way of prime rate loans or relevant Bankers Acceptances rates. Unused portions of this credit facility are subject to a commitment fee of 10 basis points per annum and a Stamping Fee of 30 basis points per annum upon acceptance of each Bankers' Acceptance.

The IMO also has an unsecured, committed, and extendible 364-day revolving credit facility agreement with a banking syndicate, under which the syndicate will make available to the IMO an amount up to $100 million. As at December 31, 2002 no balance was drawn on this credit facility. Advances under this facility are available in Canadian dollars by way of prime rate loans or relevant Bankers' Acceptances rates. Unused portions of this credit facility are subject to a commitment fee of 10 basis points per annum and a Stamping Fee of 30 basis points per annum upon acceptance of each Bankers' Acceptance. This facility will mainly be used to fund shortfalls in amounts owed to the IMO by Market Participants for payment to other Market Participants prior to their recovery under the provisions of the market rules.

Additionally, the IMO has an unsecured, committed, and extendible 364-day revolving credit facility agreement (the "Deferred Payment Plan") with a banking syndicate, under which the syndicate would make available to the IMO on behalf of Market Participants who were subscribers to the Deferred Payment Plan, an amount up to $85,513,000. As at December 31, 2002 no balance was drawn on this credit facility. This facility was terminated on January 14, 2003.

## 6. BENEFIT PLANS

The IMO provides pension and other employee future benefits, comprising group life insurance, long-term disability and group medical and dental plans, for the benefit of current and retired employees.

### Pension plans

From April 1, 1999 to December 31, 1999, the IMO participated in the OEFC Pension Plan, a contributory defined benefit, registered pension plan formerly known as the Pension and Insurance Fund of Ontario Hydro. As part of the restructuring of the electricity industry in Ontario, the assets, liabilities and a share of the OEFC Pension Plan's surplus was notionally allocated to each of the successor entities of Ontario Hydro on April 1, 1999.

The Independent Electricity Market Operator Pension Plan (the Plan) commenced on December 31, 1999 and assumed the IMO's share of the pension liabilities of the OEFC Pension Plan on January 1, 2000. The Plan received assets from the OEFC Pension Plan on July 3, 2001.

In addition to the funded, registered, pension plan, the IMO provides certain non-registered defined benefit pensions through an unfunded, non-registered plan.

### Other employee future benefits

The group life insurance, long-term disability and group medical and dental benefits are provided through unfunded, non-registered defined benefit plans.

*INDEPENDENT ELECTRICITY MARKET OPERATOR*
*FINANCIAL STATEMENTS 2002*

### Summary of accrued benefit obligations and plan assets

| (in thousands of Canadian dollars) | 2002 Pension Benefits $ | 2001 Pension Benefits $ | 2002 Other Benefits $ | 2001 Other Benefits $ |
|---|---|---|---|---|
| Accrued benefit obligation | 234,967 | 193,401 | 28,876 | 25,863 |
| Fair value of plan assets | 203,693 | 216,499 | - | - |
| Funded status | (31,274) | 23,098 | (28,876) | (25,863) |
| Prepaid (accrued) benefit cost recognized in the statements of financial position | 24,447 | 24,103 | (23,402) | (21,689) |

### Summary of principal assumptions used to calculate benefit costs and obligations

| | 2002 Pension benefits | 2001 Pension benefits | 2002 Other benefits | 2001 Other benefits |
|---|---|---|---|---|
| Discount rate | 6.6% - 7.25% | 7.0% - 7.25% | 6.6% - 7.25% | 7.0% - 7.25% |
| Expected return on plan assets | 7.25% | 7.25% | - | - |
| Rate of compensation increase | 3.5% | 3.5% | 3.5% | 3.5% |
| Rate of benefit increases | 3.0% | 2.5%- 3.0% | - | - |
| Expected average remaining service life of employees | 12 years | 12 years | 12 years | 12 years |

Hospital and drug costs are assumed to increase by 8% in 2003, 7.0% in 2004, 6.0% in 2005 and by 5.0% per annum thereafter. Dental costs are assumed to increase by 5.0% per annum.

### Summary of benefit costs and plan contributions

| (in thousands of Canadian dollars) | 2002 Pension Benefits $ | 2001 Pension Benefits $ | 2002 Other Benefits $ | 2001 Other Benefits $ |
|---|---|---|---|---|
| Benefit cost (income) | (209) | (2,759) | 2,639 | 2,604 |
| Employer contributions | 39 | 14 | 890 | 749 |
| Plan participant's contributions | 1,654 | 1,422 | - | - |
| Benefits paid | 7,833 | 7,049 | 890 | 795 |

*INDEPENDENT ELECTRICITY MARKET OPERATOR*
*FINANCIAL STATEMENTS 2002*

## 7. SEGMENTED INFORMATION

IMO consists of a single business engaged in the operation of the wholesale electricity system in Ontario.

## 8. COMMITMENTS

### Operating commitments

The obligations of the IMO with respect to non-cancellable operating leases over the next five years is as follows:

| (in thousands of Canadian dollars) | $ |
|---|---|
| 2003 | 1,851 |
| 2004 | 1,549 |
| 2005 | 893 |
| 2006 | 800 |
| 2007 | 841 |

### Capital commitments

As at December 31, 2002, the IMO had non-cancellable capital commitments of $7,710,000.

## 9. COMPARATIVE FIGURES

Certain of the 2001 comparative figures in the financial statements have been reclassified to conform to the 2002 financial statement presentation.

**Independent Electricity Market Operator**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| ANDERSON | DAVID | Mgr, Quality Assurance & Development | $154,761.59 | $635.20 |
| ARMSTRONG | LOUIS | Engr/Officer - Telecom & Computer Ntwks | $103,738.87 | $302.40 |
| BABCOCK | TIM | Senior Operations Officer | $115,683.70 | $478.68 |
| BAKSI | JIM | Settlement Production Manager | $152,820.52 | $623.88 |
| BARGER | HERB | Operations Officer | $109,291.68 | $446.04 |
| BEAMER | DEREK | Corporate Policy Officer | $104,769.06 | $393.12 |
| BRINDLEY | STUART | Manager, Emergency Preparedness | $171,247.77 | $814.80 |
| BUCCIARELLI | FRANK | Section Head - IT&I | $104,868.00 | $412.56 |
| BURNS | STEPHEN | Sr. Engineer/Tch. Officer-Market Limits | $105,467.38 | $449.28 |
| BURRELL | CARL | Senior Regulatory Analyst | $110,151.86 | $358.56 |
| CAMPBELL | BRUCE | VP - Corporate & Legal Affairs | $327,886.98 | $1,393.20 |
| CAMPBELL | STEPHEN | Engineer/Officer - Database | $104,883.78 | $360.36 |
| CARSON | BILL | Manager - IT Operations | $142,076.40 | $549.24 |
| CHAN | KEN | Sr Engr/Tech Off - Mrkt Limits/Sys Cap | $126,644.72 | $457.44 |
| CHANDLER | HARRY | Director - Market Assmt & Compliance | $206,080.98 | $939.60 |
| CHARLAND | MARIO | Senior Operations Officer | $125,784.18 | $449.28 |
| CHIANG | ED | Section Head - IT&I | $258,957.55 | $205.45 |
| CHIU | WANG | Senior Engineer/Officer - Solutions | $134,667.73 | $457.44 |
| CHUNG | JO | Treasury Analyst | $102,843.78 | $360.36 |
| CHUNG | SIMON | Senior Engineer/Officer - Database | $128,930.04 | $466.72 |
| COOPER | STEVE | Senior Engineer/Technical Officer | $115,312.42 | $518.64 |
| CORNFIELD | BRIAN | Operations Officer | $110,951.50 | $411.48 |
| COWBOURNE | DEREK | Vice President - Market Services | $328,640.64 | $1,510.08 |
| DANG | NORM | Section Head - IT&I | $102,726.00 | $474.84 |
| DE SANTIS | ALBERTO | Engr/Tech. Officer-Wholesale Metering | $101,579.82 | $447.12 |
| DELLOW | MALCOLM | Engineer/Officer - Solutions | $124,973.29 | $408.24 |
| DICKSON | PAT | Manager, Human Resources | $145,231.59 | $519.75 |
| DORAN | PAT | Section Head - Market Forecasts & Intgrn | $130,782.04 | $565.04 |
| DOVE | KEVIN | Communications Manager | $206,855.51 | $293.22 |
| DRENTH | JASON | Operations Officer | $104,508.51 | $388.08 |
| DREW | DENNIS | Senior Engineer/Technical Officer | $112,945.18 | $423.84 |
| FAHMY | GAMAL | Senior Engineer/Officer - Solutions | $116,838.65 | $474.84 |
| FAIRCHILD | JOHN | Senior Operations Officer | $132,342.98 | $474.84 |
| FALSETTI | RON | Senior Engineer / Technical Officer | $117,802.58 | $453.30 |
| FALVO | MICHAEL | Section Head - System Capability | $118,695.85 | $695.62 |
| FARRUGIA | ROGER | Senior Engineer/Technical Officer | $102,337.40 | $427.38 |
| FINDLAY | J. AL | Manager, Customer Relations | $173,369.64 | $916.08 |
| FINKBEINER | DARREN | Manager, Design Authority | $117,494.82 | $434.04 |
| FONG | CLEMENT | Section Head - IT&I | $128,440.01 | $530.09 |
| FREIRE | JOSEPH | Senior Engineer/Officer - Settlements | $131,110.80 | $457.44 |
| GATT | PAUL | Section Head - IT&I | $110,203.20 | $522.90 |
| GEMMILL | JEFF | Senior Operations Officer | $116,747.38 | $345.60 |
| GENOVESE | VITO | Senior Engineer/Technical Officer | $113,843.94 | $358.56 |
| GIBBONS | ROBERT | Manager - Long Term Forecasts & Assmts | $150,980.37 | $797.28 |
| GIKE | RUSSELL | Engineer/Officer - Shift Control | $119,124.76 | $510.60 |
| GILMORE | STEW | Engr/Tchncl Offcr - Mkt Frcsts & Intgrn | $105,953.08 | $424.77 |
| GOOCH | STEVE | Senior Engineer/Officer - Solutions | $126,964.49 | $439.08 |
| GOULDING | DAVID | President & Chief Executive Officer | $598,143.58 | $2,246.52 |
| HARPER | HAROLD | Section Head - IT&I | $105,582.69 | $464.64 |

**Independent Electricity Market Operator**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| HARRISON | CYNTHIA | Senior Engineer/Officer - Settlements | $105,272.08 | $412.56 |
| HAY | LAWRENCE | Superintendent - Operations | $139,152.86 | $546.36 |
| HENDERSON | PETE | Section Head - Consistent Set Management | $139,011.76 | $609.35 |
| HESS | TOM | Superintendent - Operations | $160,616.17 | $525.96 |
| HILL | WARREN | Market Relations Consultant | $100,527.05 | $356.40 |
| HINE | GREGORY | Sr Engr / Tech. Officer - Assessments | $105,091.13 | $369.36 |
| HOSICK | HOWARD | Senior Engineer / Technical Officer | $113,625.46 | $498.24 |
| HOY | DAVID | Senior Engineer/Officer - Systems | $107,593.08 | $436.92 |
| INDEWEY | RICK | Senior Operations Officer | $143,975.08 | $480.00 |
| INGMAN | NICHOLAS | Project Engineer - Planning & Delivery | $112,000.14 | $390.96 |
| ISBER | MIKE | Market Relations Consultant | $106,398.11 | $339.12 |
| ISLAM | HELAL | Engineer/Technical Officer | $121,948.69 | $336.20 |
| JOHNSON | LEN | Operations Officer | $104,290.02 | $396.12 |
| JONES | ROWAN | Supervisor - Wholesale Metering | $106,493.69 | $410.40 |
| JUTRAS | JAMES | Section Head - IT&I | $116,100.28 | $428.88 |
| KALINOVICH | MIKE | Human Resources Consultant | $112,591.88 | $667.77 |
| KALRA | NIKHILESH | Engineer/Officer - Database | $110,923.51 | $365.04 |
| KANDOLA | HARDEEP | Senior Engineer / Technical Officer | $115,434.33 | $465.00 |
| KAPTEYN | ROBERT | Asst Operations Officer | $100,659.01 | $367.68 |
| KATHURIA | RAJ | Market Information Analyst | $128,619.51 | $448.50 |
| KELBERT | JIM | Senior Analyst - Rule Amendment | $109,767.30 | $457.44 |
| KIM | JONG | Mrkt Opns Development Program Officer | $124,124.00 | $378.84 |
| KITCHEN | BRUCE | Senior Operations Officer | $117,346.56 | $426.72 |
| KLAHSEN | PETER | Engineer/Officer - Shift Control | $120,593.89 | $488.04 |
| KLINE | HEATHER | Supervisor - Mrkt Accounting & Reporting | $103,960.54 | $403.92 |
| KOT | JOHN | Senior Engineer/Officer - Systems | $110,881.40 | $449.28 |
| KOZLIK | KEN | Director - Client Support | $212,282.16 | $845.64 |
| LAD | DILIP | Engr/Officer - Telecom & Computer Ntwks | $104,078.42 | $345.60 |
| LAFOYIANNIS | PETER | Supervisor - Market Information Services | $115,296.63 | $436.92 |
| LAM | LISA | Sr Engr/Technical Officer - Settlements | $127,393.33 | $459.60 |
| LANGFORD | TIM | Operations Officer | $106,780.48 | $295.92 |
| LEE | DON | Director - Business Development | $212,761.85 | $971.40 |
| LEE | FRANK | Senior Engineer/Officer - Database | $125,918.88 | $455.28 |
| LEONARD | TED | Corporate Controller | $147,928.21 | $797.28 |
| LIMBRICK | WILLIAM | Vice President - IT&I | $304,628.46 | $1,360.80 |
| LINDENMAYR | ERIC | Engineer / Officer - Systems | $123,124.77 | $423.84 |
| LOCKE | BRUCE | Section Head - IT&I | $129,639.32 | $451.44 |
| LOUIE | CHAK | Senior Engineer / Technical Officer | $111,788.66 | $459.36 |
| LUBEK | JACK | Senior Analyst - Market Assessment | $107,221.67 | $486.24 |
| LYLE | ALEXANDER | Senior Engineer/Officer - Systems | $110,992.28 | $408.48 |
| LYN | TYRONE | Section Head - IT&I | $138,441.53 | $469.80 |
| MACKAY | BRUCE | Manager - Contracts & Agreements | $155,854.88 | $351.00 |
| MACKENZIE | JOHN | Supervisor - Market Rules | $105,634.61 | $408.24 |
| MAGUIRE | DANNY | Senior Operations Officer | $129,001.01 | $449.28 |
| MALIK | YASIN | Manager, Facilities & Asset Management | $140,088.08 | $821.04 |
| MALO | ADRIAN | Sr. Exchange Engineer / Officer | $118,711.40 | $531.00 |
| MARCUS | MICHEL | Engineer / Officer - Solutions | $107,500.76 | $264.06 |
| MARIA | GAMAL | Manager - Technical Integration | $150,826.53 | $947.16 |
| MARTIN | DAN | Senior Operations Officer | $126,210.42 | $451.20 |
| MARTIN | DAVID | Operations Officer | $103,346.30 | $352.62 |

**Independent Electricity Market Operator**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| MARX | MICHAEL | Senior Operations Officer | $119,118.48 | $479.58 |
| MCCLOY | ROBERT | Engineer / Tech. Officer - Settlements | $106,041.72 | $474.84 |
| MCLELLAN | GARY | Superintendent - Operations | $117,559.60 | $565.92 |
| MCVEETY | MICHAEL | Senior Operations Officer | $114,768.45 | $474.84 |
| MEYER | GARRY | Senior Operations Officer | $133,865.54 | $485.04 |
| MILLER | ALLAN | Senior Engineer / Technical Officer | $126,164.53 | $518.64 |
| MISNER | BRAD | Section Head - IT&I | $108,520.11 | $397.44 |
| MONIZE | FRANCIS | Corporate Policy Officer | $100,682.40 | $464.64 |
| MORRIS | ELIZABETH | Manager, Market Relations | $128,305.34 | $587.90 |
| MURPHY | PAUL | Chief Operating Officer | $323,106.35 | $1,008.48 |
| MURRAY | ROSS | Operations Officer | $100,900.87 | $369.36 |
| MURRAY | YVONNE C | Manager, Audit | $130,975.82 | $326.88 |
| NEUMAN | ROGER | Senior Engineer / Technical Officer | $110,053.05 | $421.68 |
| NOBLE | KERRY | Mgr. Planning, Delivery & Applications | $135,110.04 | $634.73 |
| PARCEY | TODD | Senior Operations Officer | $121,298.21 | $439.81 |
| PATERSON | WILLIAM | Engineer / Officer - Shift Control | $112,668.82 | $432.48 |
| PENN | RICHARD | Manager, Market Assessment | $158,780.16 | $810.00 |
| PETERSEN | PAUL | Team Leader-EIE Functional Strategy | $102,350.23 | $501.14 |
| PETTITT | W. (BILL) | System Architect | $118,403.94 | $469.80 |
| PHILLIPS | CARMELA | Senior Market Relations Consultant | $100,903.38 | $439.08 |
| PHILLIPS | DREW | Supervisor Training & Education | $114,950.93 | $531.00 |
| PITCHELL | KIM | Senior Engineer / Technical Officer | $114,319.22 | $493.08 |
| RADAN | MIKE | Section Head - Market Limits | $178,741.76 | $599.30 |
| REYNOLDS | TERRY | Operations Officer | $108,445.69 | $406.32 |
| RIVARD | BRIAN | Senior Analyst - Market Assessment | $101,465.39 | $382.32 |
| ROBITAILLE | DAVID | Senior Engineer / Technical Officer | $111,529.78 | $411.48 |
| ROCHESTER | DANIEL | Superv. Engr. / Tech Off - Assessments | $105,924.24 | $474.84 |
| SCHAEDLICH | KLAUS | Senior Exchange Engineer / Officer | $102,624.80 | $494.40 |
| SCHLAG | STEVE | Engineer / Officer - Shift Control | $113,009.33 | $429.48 |
| SCHMIDT | DAN | Manager, Market Facilitation | $168,406.44 | $900.24 |
| SCHNEIDER | HORST | Section Head-Infrastructure&Axclry Srvcs | $115,274.79 | $382.32 |
| SCOTT | CHRIS | Senior Engineer / Officer - Systems | $100,539.47 | $421.68 |
| SEPA | TOIVO ROY | Business Strategist | $104,521.12 | $428.88 |
| SERGEJEWICH | PETER | Director, Market Development | $196,756.40 | $799.20 |
| SHALABY | AMIR | Mgr, Regulatory & Government Affairs | $184,334.54 | $971.52 |
| SHERKEY | GARY | Vice President Finance, CFO & Treasurer | $200,680.73 | $1,516.32 |
| SIMS | DON | Engr/Officer - Telecom & Computer Ntwk: | $103,875.54 | $422.28 |
| SINCLAIR | ROB | Senior Engineer/Officer - Solutions | $136,375.84 | $449.28 |
| SPRINGGAY | GUY | Senior Market Relations Consultant | $110,011.29 | $452.28 |
| STEVENS | CHRIS | Director - Settlements | $211,165.68 | $995.58 |
| STEWART | ROY | General Counsel & Secretary | $237,169.33 | $1,036.80 |
| STUBBERT | DAVE | Superintendent - Operations | $131,102.88 | $525.96 |
| STURGEON | DAN | Operations Officer | $112,770.54 | $396.12 |
| SWANT | FRED | Engineer/Officer - Shift Control | $106,931.31 | $386.70 |
| TAKATA | RICHARD | Engineer/Officer - Shift Control | $117,539.92 | $444.60 |
| TANG | CHI | Section Head - Models & Data | $115,373.69 | $576.20 |
| TENCH | DON | Manager, Consistent Information Set | $155,775.15 | $852.72 |
| THOMAS | DOUGLAS | Director of Finance | $241,888.41 | $628.60 |
| THOMAS | NORMAN | Director - Human Resources | $210,644.37 | $1,034.88 |
| TSAI | DAVID | Senior Analyst - Surveillance | $108,994.46 | $452.28 |

**Independent Electricity Market Operator**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| TSE | NORMAN | Power Billing System Analyst | $129,209.02 | $421.68 |
| VENDITTI | MICHAEL | Senior Engineer/Officer - Solutions | $110,524.74 | $382.32 |
| VERT | JAMES | Senior Operations Officer | $128,431.65 | $474.84 |
| VISCA | JOHN | Manager - Technology Support | $121,713.30 | $932.04 |
| WALDEN | DALE | Senior Operations Officer | $122,069.21 | $447.63 |
| WARREN | KIM | Manager, Shift Operations | $159,501.74 | $539.04 |
| WATSON | ALLAN | Operations Officer | $100,569.41 | $345.12 |
| WILBUR | BILL | Engineer/Technical Officer - Settlements | $106,941.82 | $360.72 |
| WILLIAMS | RALPH | Superintendent - Operations | $144,416.79 | $536.16 |
| WILSON | MARK | Superintendent - Operations | $139,473.84 | $510.60 |
| WONG | VICTOR | Manager, Settlement Support | $186,236.56 | $293.04 |
| WOO | BILL | Sr Engr/Tech Off - Mrkt Limits/Sys Cap | $113,477.21 | $452.28 |
| WOO | PETER | Senior Engineer/Officer - Systems | $114,473.97 | $452.28 |
| WRIGHT HILBIG | RHONDA | Supvsr-Compliance & Dispute Resolution | $107,675.96 | $413.64 |
| WYNN | CHAS | Section Head - IT&I | $102,897.79 | $489.30 |
| WYNN | JAN | Engineer/Officer - Systems | $113,788.64 | $421.68 |
| YI | JAMES | Senior Engineer/Officer - Systems | $120,865.96 | $464.76 |
| ZAWORSKI | RICHARD | Engr/Tech. Officer-Wholesale Metering | $106,523.02 | $447.12 |
| ZIEGLER | BARRY | Superintendent - Operations | $136,344.71 | $561.60 |

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## Management's Responsibility for Financial Information

Management and the Board of Directors are responsible for the financial statements and all other information presented in the Annual Report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and, where appropriate, include amounts based on management's best estimates and judgements.

Legal Aid Ontario is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances of the reliability of financial information and that the assets were safeguarded.

The Board ensures that management fulfils its responsibilities for financial information and internal control through an Audit and Finance Committee of the Board. The Board meets bi-monthly to oversee the financial activities of LAO. On an annual basis, the Board reviews the financial statements and the external auditors' report thereon, and recommend them to the Ministry of the Attorney General.

The financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

Angela Longo
President & CEO

Michelle A. Séguin
Vice President,
Corporate Services

June 24, 2003

375 University Avenue, Suite 404, Toronto, ON M5G 2G1
Bureau 404, 375, avenue University, Toronto, ON M5G 2G1

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

## *Auditor's Report*

To Legal Aid Ontario
and to the Attorney General of Ontario

I have audited the balance sheet of Legal Aid Ontario as at March 31, 2003 and the statements of operations and accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of Legal Aid Ontario's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of Legal Aid Ontario as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 23, 2003

J.R. McCarter, CA
Assistant Provincial Auditor

## Legal Aid Ontario
## Balance Sheet

| March 31 | 2003 | 2002 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents (Note 2) | $ 6,520 | $ 1,468 |
| Cash and cash equivalents - contingency reserve (Note 8) | 236 | 907 |
| Accounts receivable (less allowance for doubtful accounts) | 20,216 | 29,639 |
| Prepaid expenses | 1,161 | 513 |
| Short term investments (Note 3) | 3,197 | 4,225 |
| Short term investments - contingency reserve (Notes 3 and 8) | 2,076 | 2,711 |
| | 33,406 | 39,463 |
| **Long term investments** (Note 3) | 38,494 | 42,464 |
| **Long term investments - contingency reserve** (Notes 3 and 8) | 24,985 | 29,614 |
| **Capital assets** (Note 4) | 8,945 | 7,391 |
| | $ 105,830 | $ 118,932 |
| **Liabilities and Net Assets** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (Note 5) | $ 58,637 | $ 61,141 |
| **Deferred contributions** (Note 6) | 4,789 | 5,930 |
| | 63,426 | 67,071 |
| **Net Assets** | | |
| Accumulated surplus (Note 1(c)) | 10,755 | 18,511 |
| Invested in capital assets (Note 7) | 4,156 | 1,461 |
| Contingency reserve (Notes 3 and 8) | 27,493 | 31,889 |
| | 42,404 | 51,861 |
| | $ 105,830 | $ 118,932 |

On behalf of the Board:

CHAIR

Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Legal Aid Ontario
## Statement of Operations and Accumulated Surplus

| **For the year ended March 31** | **2003** | 2002 |
|---|---|---|
| | **(000's)** | |
| **Revenue** | | |
| Province of Ontario (Note 1(a)) | $ **244,966** | $ 246,695 |
| The Law Foundation of Ontario | **17,678** | 19,944 |
| Client contributions | **13,327** | 14,234 |
| Judgements, costs and settlements | **1,095** | 768 |
| Investment and other income | **5,181** | 6,676 |
| | **282,247** | 288,317 |
| **Expenses** | | |
| Core Business | | |
| Certificate Program | | |
| Criminal | **80,960** | 83,033 |
| Family | **41,434** | 44,019 |
| Immigration and refugee | **16,434** | 16,862 |
| Other civil | **5,333** | 5,552 |
| Settlement conferences | **191** | 177 |
| | **144,352** | 149,643 |
| Area office services | **23,705** | 27,028 |
| Family law offices | **1,892** | - |
| Refugee law office | **653** | 681 |
| | **170,602** | 177,352 |
| Duty Counsel Program | | |
| Duty counsel fees and disbursements | **28,754** | 25,536 |
| Expanded duty counsel | **542** | - |
| | **29,296** | 25,536 |
| Clinic Program and special services | | |
| Clinic law services (Note 9) | **57,482** | 52,749 |
| Nishnawbe-Aski allocation | **1,524** | 1,577 |
| Student legal aid societies | **2,617** | 2,610 |
| | **61,623** | 56,936 |
| Alternative Programs | | |
| Pilot projects | **311** | 2,794 |
| Other | **1,088** | 908 |
| | **1,399** | 3,702 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# Legal Aid Ontario
## Statement of Operations and Accumulated Surplus (Continued)

| **For the year ended March 31** | **2003** | 2002 |
|---|---|---|
| | **(000's)** | |
| **Expenses (continued)** | | |
| Service Provider Support | | |
| Research facility | **$ 2,132** | $ 2,010 |
| Administrative | | |
| Provincial office | **20,327** | 19,577 |
| Business re-engineering and other projects | **2,505** | 4,276 |
| Amortization expense | **3,820** | 4,128 |
| | **26,652** | 27,981 |
| | **291,704** | 293,517 |
| **Deficiency of revenue over expenses for the year** | **(9,457)** | (5,200) |
| **Accumulated surplus**, beginning of year | **18,511** | 22,210 |
| **Invested in capital assets** | **(2,695)** | 1,501 |
| **Transfer from contingency reserve to accumulated surplus** (Note 8) | **4,396** | - |
| **Accumulated surplus,** end of year | **$ 10,755** | $ 18,511 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Legal Aid Ontario
## Statement of Cash Flows

| **For the year ended March 31** | **2003** | 2002 |
|---|---|---|
| | **(000's)** | |
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Deficiency of revenue over expenses for the year | **$ (9,457)** | $ (5,200) |
| Adjustments to reconcile deficiency of revenue over expenses to net cash provided by operating activities: | | |
| Amortization | **3,820** | 4,128 |
| Amoritization of bond premium | **432** | - |
| Amortization of deferred contributions | **(3,114)** | (3,429) |
| Realization of deferred contributions | **(2,470)** | (5,166) |
| Writedown of short term investments | **82** | - |
| Gain on sale of investments | **(202)** | (422) |
| Loss on sale of capital assets | **-** | 115 |
| Transfer of capital assets to community clinics | **306** | 1,239 |
| Changes in non-cash working capital balances | | |
| Accounts receivable | **9,423** | (16,750) |
| Prepaid expenses | **(647)** | 108 |
| Accounts payable and accrued liabilities | **(2,504)** | 9,107 |
| Accrued interest on long term investments | **123** | 407 |
| Deferred contributions | **4,443** | 3,742 |
| | **235** | (12,121) |
| **Investing activities** | | |
| Purchase of capital assets | **(5,680)** | (3,048) |
| Purchase of investments | **(47,471)** | (213,528) |
| Redemption of investments | **57,297** | 231,659 |
| | **4,146** | 15,083 |
| **Net increase in cash and cash equivalents during the year** | **4,381** | 2,962 |
| **Cash and cash equivalents (bank indebtedness),** beginning of year | **2,375** | (587) |
| **Cash and cash equivalents**, end of year | **$ 6,756** | $ 2,375 |
| **Represented by** | | |
| Cash and cash equivalents | **$ 6,520** | $ 1,468 |
| Cash and cash equivalents - contingency reserve | **236** | 907 |
| | **$ 6,756** | $ 2,375 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# Legal Aid Ontario
## Summary of Significant Accounting Policies

**March 31, 2003**

**Nature of Operations**

On December 18, 1998, the Ontario Legislative Assembly enacted the Legal Aid Services Act, 1998 whereby Legal Aid Ontario (the "Corporation") was incorporated without share capital under the laws of Ontario. The Corporation began operations on April 1, 1999 and is tax exempt under the Income Tax Act.

The Legal Aid Services Act, 1998 establishes the following mandate for the Corporation:

- To promote access to justice throughout Ontario for low-income individuals by providing high quality legal aid services
- To encourage and facilitate flexibility and innovation in the provision of legal aid services
- To recognize the diverse legal needs of low-income individuals and disadvantaged communities
- To operate within a framework of accountability for the expenditure of public funds

The affairs of the Corporation are governed and managed by a Board of eleven Directors appointed by the Lieutenant Governor in Council. While the Corporation operates independently from the Province of Ontario and the Law Society of Upper Canada, it is accountable for the expenditure of public funds and for the provision of legal aid services in a manner that both meets the needs of low-income individuals and is cost-effective and efficient.

**Basis of Accounting**

The Corporation follows the deferral method of accounting for contributions.

Accumulated surplus represents the excess of revenue over expenses related to the Corporation's program delivery and administrative activities.

The Contingency Reserve was established in accordance with Section 66(4) of the Legal Aid Services Act, 1998 to provide funding for operations upon approval of the Attorney General. Under the Ontario Regulation 107/99 made under the Legal Aid Services Act, 1998, the Corporation is required to maintain a minimum $20 million contingency reserve.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

# Legal Aid Ontario
## Summary of Significant Accounting Policies

**March 31, 2003**

**Revenue Recognition**

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue if the amount to be received can be reasonably estimated and collection is reasonably assured.

**Expense Recognition**

Expenses are recognized on an accrual basis. Certificate program costs include amounts billed to the Corporation by lawyers and an estimate of amounts for work performed for the Corporation by lawyers but not yet billed to the Corporation.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand and balances with banks plus highly liquid investments with original maturities of three months or less.

**Investments**

Short term investments are stated at the lower of cost and market value. Long term investments are stated at cost and are written down when there is a permanent impairment in value. Purchase premiums or discounts on bonds are amortized on a straight-line basis over the life of the particular securities. Government and corporate bonds are carried at amortized cost. Any writedowns or gains and losses on the disposal of investments are recorded in the year they occur as either an increase or decrease in investment income. Gains and losses on disposal are calculated based on the average cost of the securities sold.

**Capital Assets**

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on the straight line basis over the estimated useful life of the asset as follows:

| | | |
|---|---|---|
| Furniture and office equipment | - | 5 years |
| Computer hardware and software | - | 3 years |
| Custom-designed software | - | 5 years |
| Enterprise-wide software | - | 7 years |
| Leasehold improvements | - | over the term of lease |

# Legal Aid Ontario
## Summary of Significant Accounting Policies

**March 31, 2003**

**Deferred Contributions**

Deferred special initiatives contributions represent unspent resources relating to Province of Ontario funded projects. Unspent amounts are held for use in subsequent periods or settlement by the Province.

Deferred capital contributions related to capital assets represents the unamortized portion of contributions used for the acquisition of capital assets. Amortization of the deferred contribution is provided on the same basis as the related asset.

**Pensions**

The cost of pension benefits earned by the employees covered by defined benefit plans is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, terminations and retirement ages of plan members. Adjustments for plan amendments, changes in assumptions and actuarial gains and losses are charged to operations over the expected average remaining service life of the employee group which is approximately 13 years. The costs of pension benefits for defined contribution plans are charged to operations as contributions become due.

**Use of Estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

**Financial Instruments**

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest rate, currency or credit risks arising from its financial instruments. In management's opinion, the carrying amount of the Corporation's financial instruments approximate fair value unless otherwise noted.

## Legal Aid Ontario
## Notes to Financial Statements

**March 31, 2003**

### 1. Funding by the Province of Ontario

Section 71 of the Legal Aid Services Act, 1998 requires the Corporation and the Attorney General of Ontario to enter into a Memorandum of Understanding ("MOU") every five years. The purpose of the MOU is to clarify the operational, administrative, financial, and other relationships between the Attorney General and the Corporation.

The Memorandum of Understanding was signed on December 22, 2000 and is effective until April 1, 2004.

(a) Contributions received from the Province of Ontario were allocated as follows:

| | **2003** | 2002 |
|---|---|---|
| | **(000's)** | |
| Contributions | **$ 239,382** | $ 238,100 |
| Realization of deferred contributions (Note 6) | **2,470** | 5,166 |
| Amortization of deferred contributions (Note 6) | **3,114** | 3,429 |
| | **$ 244,966** | $ 246,695 |

(b) Included in contributions from the Province of Ontario for the year ended March 31, 2003 is an amount of $45.6 million (2002 - $44.3 million) representing an allocation of funds from a lump sum transfer by the Federal Government to the Province in connection with criminal law, the Young Offenders Act and other expenditures through a cost-sharing arrangement.

(c) Subsection 66(3) of the Legal Aid Services Act, 1998 allows the Corporation to designate any surplus or deficit in a fiscal year to either or both of the two subsequent fiscal years with the approval of the Attorney General, unless under Subsection 69(2) it is ordered by the Minister of Finance to pay its surplus into the Consolidated Revenue Fund.

### 2. Cash and Cash Equivalents

Cash and cash equivalents includes a Government of Canada treasury bill of $1.623 million, which matures in May 2003 and bears interest of 2.83%.

The Corporation has an available line of credit in the amount of $5 million (2002 - $5 million) which remained unused as of March 31, 2003. The credit facility bears interest at prime rate and is unsecured.

# Legal Aid Ontario
## Notes to Financial Statements

**March 31, 2003**

### 3. Investments

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Cost** | **Market** | Cost | Market |
| | | (000's) | | |
| Canada bonds<br>Interest rates from 5.0% to 6.0%, maturing from June 2004 to June 2010 | **$ 17,440** | **$ 17,928** | $ 20,281 | $ 20,326 |
| Provincial bonds<br>Interest rates from 4.875% to 7.5%, maturing from June 2004 to June 2009 | **32,340** | **32,866** | 38,801 | 38,949 |
| Corporate bonds<br>Interest rates from 4.75% to 7.1%, maturing from June 2003 to January 2010 | **18,141** | **18,423** | 18,978 | 18,990 |
| Accrued bond interest | **831** | **831** | 954 | 954 |
| | **68,752** | **70,048** | 79,014 | 79,219 |
| Less: Contingency reserve | | | | |
| - short term (Note 8) | **(2,076)** | **(2,123)** | (2,711) | (2,711) |
| - long term (Note 8) | **(24,985)** | **(25,456)** | (29,614) | (29,681) |
| | **(27,061)** | **(27,579)** | (32,325) | (32,392) |
| | **$ 41,691** | **$ 42,469** | $ 46,689 | $ 46,827 |
| **Represented by** | | | | |
| Short term investments | **$ 3,197** | **$ 3,276** | $ 4,225 | $ 4,225 |
| Long term investments | **38,494** | **39,193** | 42,464 | 42,602 |
| | **$ 41,691** | **$ 42,469** | $ 46,689 | $ 46,827 |

The Corporation has developed an investment policy in accordance with the statutory requirements outlined in Sections 7(1), 7(2), 7(3) and 7(4) of Ontario Regulation 107/99 made under the Legal Aid Services Act, 1998. The investments held by the Corporation as at March 31, 2003 are in compliance with the statutory requirements. The Corporation earned total investment income of $4.7 million in 2003 (2002 - $5.7 million).

## Legal Aid Ontario
## Notes to Financial Statements

**March 31, 2003**

### 4. Capital Assets

| | 2003 | | | 2002 | |
|---|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | (000's) | Cost | Accumulated Amortization |
| Furniture and office equipment | **$ 2,634** | **$ 1,852** | | $ 2,394 | $ 1,510 |
| Computer hardware and software | **14,524** | **12,301** | | 14,122 | 9,752 |
| Custom-designed software | **817** | **747** | | 817 | 586 |
| Enterprise-wide software | **4,180** | **-** | | - | - |
| Leasehold improvements | **4,149** | **2,459** | | 3,540 | 1,634 |
| | **26,304** | **17,359** | | 20,873 | 13,482 |
| Net book value | | **$ 8,945** | | | $ 7,391 |

Included in capital assets is approximately $4.235 million (2002 - $0.362 million) of enterprise-wide software and computer hardware and software which was not in use as at the year end on which no amortization expense has been taken. Of the assets not in use, $0.055 million (2002 - $0.362 million) represents computer hardware and software acquired on behalf of the community clinics which will be provided to the clinics as part of their funding requirement in fiscal 2004.

### 5. Accounts Payable and Accrued Liabilities

| | 2003 | 2002 |
|---|---|---|
| | (000's) | |
| Legal accounts - billings received but not paid | **$ 17,217** | $ 10,777 |
| - work performed but not yet billed | **29,048** | 32,826 |
| Rent inducements | **172** | 277 |
| Trade and other payables | **11,582** | 16,740 |
| Vacation pay | **618** | 521 |
| | **$ 58,637** | $ 61,141 |

At year end, management estimates the liability for work conducted by private lawyers that has not yet been billed by these lawyers to the Corporation to be approximately $29.0 million (2002 - $32.8 million). This estimate uses a methodology that incorporates average costs and time frames for similar cases over a period of 7 years.

Due to the uncertainty involved in the estimation process, there will likely be a difference between the estimated and actual liability. In the opinion of management the actual liability will fall within a range of plus 20% to minus 20% ($23.2 million to $34.9 million). Any adjustment of the estimated liability would result in a corresponding increase or decrease in expenses for the "certificate program," the "deficiency of revenue over expenses for the year" and the "accumulated surplus."

## Legal Aid Ontario
## Notes to Financial Statements

**March 31, 2003**

### 6. Deferred Contributions

Changes in deferred special initiatives and capital contributions relating to Province of Ontario funded projects are as follows:

| | 2003 | 2002 |
|---|---|---|
| | (000's) | |
| Deferred special initiatives contributions | | |
| Balance, beginning of year | $ - | $ 3,920 |
| Contributions received during the year | 4,443 | 3,742 |
| Transferred upon acquisition of capital assets | (1,973) | (2,496) |
| Realization of deferred contributions (Note 1(a)) | (2,470) | (5,166) |
| | - | - |
| Deferred capital contributions | | |
| Balance, beginning of year | 5,930 | 6,863 |
| Contributions for capital assets | 1,973 | 2,496 |
| Amortization of deferred contributions (Note 1(a)) | (3,114) | (3,429) |
| | 4,789 | 5,930 |
| | $ 4,789 | $ 5,930 |

### 7. Net Assets Invested in Capital Assets

| | 2003 | 2002 |
|---|---|---|
| | (000's) | |
| Balance, beginning of year | $ 1,461 | $ 2,962 |
| Amortization | (3,820) | (4,128) |
| Amortization of deferred contributions | 3,114 | 3,429 |
| Purchase of capital assets | 5,680 | 3,048 |
| Contributions for capital assets | (1,973) | (2,496) |
| Disposal and transfers of capital assets | (306) | (1,354) |
| | $ 4,156 | $ 1,461 |
| **Represented by** | | |
| Capital assets (Note 4) | $ 8,945 | $ 7,391 |
| Deferred capital contributions (Note 6) | (4,789) | (5,930) |
| | $ 4,156 | $ 1,461 |

## Legal Aid Ontario
## Notes to Financial Statements

**March 31, 2003**

### 8. Contingency Reserve

Section 6 of Ontario Regulation 107/99 made under the Legal Aid Services Act, 1998, requires the Corporation to maintain at least a $20 million contingency reserve. The Regulation also allows the Corporation to increase the contingency reserve by investment income earned on the contingency reserve and general funds. Accumulated investment income of $7.493 million (2002 - $11.889 million) is available to fund general operations, without the need for prior approval of the Attorney General. The contingency reserve is made up as follows:

| | **2003** | 2002 |
|---|---|---|
| | **(000's)** | |
| **Balance**, beginning of year | $ **31,889** | $ 31,889 |
| **Transfer from contingency reserve to accumulated surplus** | **(4,396)** | - |
| **Balance**, end of year | $ **27,493** | $ 31,889 |

**Represented by**

| | **2003** | 2002 |
|---|---|---|
| | **(000's)** | |
| Cash and cash equivalents | $ **236** | $ 907 |
| Due from (due to) general funds | **196** | (1,343) |
| Investments - short term (Note 3) | **2,076** | 2,711 |
| Investments - long term (Note 3) | **24,985** | 29,614 |
| | $ **27,493** | $ 31,889 |

The transfer of funds of $4.396 million is comprised of $7.659 million in cash transfers from the contingency reserve fund to the general fund net of $1.724 million of investment income earned in the contingency reserve fund and $1.539 million change in due from (due to) general funds over the prior year. The transfer of funds was used primarily to fund the $3.2 million tariff increase effective August 1, 2002 and settlement of other one-time expenditures.

Cash and cash equivalents - contingency reserve includes treasury certificates of $0.22 million (2002 - $0.89 million) as at March 31, 2003, which will mature in fiscal 2004 and bear interest of 2.72% (2002 - 1.89% and 2.06%).

### 9. Clinic Law Services

The Corporation provides funding to community clinics enabling them to provide legal aid services to the community they serve on a basis other than fee-for-service. The community clinics are organizations structured as corporations without share capital each governed and managed by a board of directors. Community Clinics are independent from, but accountable to the Corporation under Sections 33 to 39 of the Legal Aid Services Act, 1998. Each community clinic is independently audited and are required to provide audited financial statements to the Corporation for the funding period.

# Legal Aid Ontario
## Notes to Financial Statements

**March 31, 2003**

### 9. Clinic Law Services (continued)

The total consists of:

| | 2003 | 2002 |
|---|---|---|
| | (000's) | |
| Payments to and on behalf of clinics | $ 55,331 | $ 49,774 |
| Administrative costs | 2,151 | 2,975 |
| | **$ 57,482** | $ 52,749 |

### 10. Commitments and Contingencies

(a) The Corporation issues certificates to individuals seeking Legal Aid assistance. Each certificate issued authorizes legal services to be performed within the tariff guidelines. At March 31, 2003 management estimates that a potential $54 million could be incurred on certificates over and above the billings received to date and management's estimated accrual of work performed but not yet billed.

(b) The Corporation leases various office premises and equipment throughout the Province. The minimum annual commitments under these leases are approximately as follows:

| | Amount |
|---|---|
| | (000's) |
| 2004 | $ 7,130 |
| 2005 | 6,688 |
| 2006 | 6,098 |
| 2007 | 5,468 |
| 2008 | 5,000 |
| Thereafter | 4,419 |
| | $ 34,803 |

(c) The Corporation is the defendant in a number of lawsuits arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not likely to be significant and are not determinable at this time. Losses, if any, will be accounted for in the period of settlement.

Some of the above lawsuits are covered by insurance after the application of a deductible, of up to $0.05 million, depending on when the event of the claim occurred and the nature of the claim.

# Legal Aid Ontario
## Notes to Financial Statements

March 31, 2003

### 11. Pensions

The Corporation has a pension plan to provide retirement benefits for its employees. The plan has two components, a defined contribution component and a defined benefit component.

**Defined Contribution Component**

The defined contribution component of the plan covers 471 (2002 - 440) employees, the majority of employees. The Corporation makes pension contributions to the defined contribution component of the plan, which is limited to making regular payments to match the amount contributed by the employees for current service. The Corporation's pension expense for the year relating to this component of the plan was $1.512 million (2002 - $1.051 million).

**Defined Benefit Component**

The defined benefit component of the plan covers 16 (2002 - 21) participants. Under this benefit plan, benefits at retirement are related to years of service and remuneration during the years of employment. It is subject to actuarial valuations for funding purposes at intervals of not more than three years. The next actuarial valuation will be performed in fiscal 2006 on the value at January of 2005. The Corporation makes pension contributions to this component of the plan in amounts recommended by the actuary.

The Corporation made no pension contribution to this component of the plan in the current year.

For the year ended March 31, 2003, an actuarial valuation for accounting purposes was performed using the following assumptions:

| | |
|---|---|
| Discount rate | 7.0% |
| Salary increases | 5.0% |
| Expected rate of return on assets | 6.0% |

The actuarial valuation for accounting purposes for the year ending March 31, 2003 indicated an actuarial surplus of $0.126 million (2002 - $0.628 million), resulting from accrued benefit obligation of approximately $1.765 million (2002 - $1.567 million) and fair value of plan assets available to provide for these benefits of approximately $1.891 million (2002 - $2.195 million). The pension income for the year was $0.02 million (2002 - $0.034 million) and the pension accrued benefit asset as at March 31, 2003 was $0.054 million (2002 - $0.034 million). During the year, employees contributed $0.040 million (2002 - $0.042 million) and the plan paid benefits of $0.008 million (2002 - $0.003 million).

The Board of the Corporation approved the establishment of a supplementary pension benefit for designated executive members. Under the supplementary benefit plan, benefits at retirement are related to years of service and remuneration during the years of employment. Management estimated the Corporation's pension expense on this benefit for the year was $0.074 million (2002 - $0.087 million) and the pension accrued benefit obligation as at March 31, 2003 was $0.161 million (2002 - $0.087 million). An actuarial valuation of the benefit will be performed in fiscal 2004.

### 12. Comparative Figures

Certain comparative figures have been reclassified to conform with current year presentation.

## RECORD OF EMPLOYEES' 2002 SALARIES AND BENEFITS

Please refer to the PSSD Guide before filling out this form

Insert additional rows as needed

| Cal Year | Sector | Employer | Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|---|---|---|
| 2002 | Agencies | Legal Aid Ontario | Biggar | George | VP, Policy, Planning & External Relations | $136,829.72 | $308.32 |
| 2002 | Agencies | Legal Aid Ontario | Buchanan | Robert | VP, Client Legal Services | $127,281.07 | $294.00 |
| 2002 | Agencies | Legal Aid Ontario | Carten | Jennifer | Area Director/Executive Director | $109,796.28 | $254.78 |
| 2002 | Agencies | Legal Aid Ontario | Champagne | Nathalie | Area Director | $100,602.31 | $231.50 |
| 2002 | Agencies | Legal Aid Ontario | Champlin | Elizabeth | Area Director | $105,378.83 | $243.04 |
| 2002 | Agencies | Legal Aid Ontario | Davies | Simon | Area Director | $109,796.28 | $254.78 |
| 2002 | Agencies | Legal Aid Ontario | Ellsworth | Randall | Director, Clinic Services Office | $100,484.96 | $231.50 |
| 2002 | Agencies | Legal Aid Ontario | Gardner | Ross | Director, Finance | $108,174.04 | $250.00 |
| 2002 | Agencies | Legal Aid Ontario | Hall | Stephen | Technical Lead, TSN Project | $120,845.54 | $277.68 |
| 2002 | Agencies | Legal Aid Ontario | Hastings | Maureen | Executive Lead | $110,303.36 | $253.59 |
| 2002 | Agencies | Legal Aid Ontario | Judge | David | Network Engineer | $111,831.32 | $492.48 |
| 2002 | Agencies | Legal Aid Ontario | Lawson | Ruth | General Counsel | $133,808.86 | $307.92 |
| 2002 | Agencies | Legal Aid Ontario | Longo | Angela | President and CEO | $171,999.88 | $9,401.18 |
| 2002 | Agencies | Legal Aid Ontario | McCaffrey | Susan | VP, Clinic and Special Services | $130,789.07 | $294.00 |
| 2002 | Agencies | Legal Aid Ontario | Morley | Jane | Director, LAO Law | $104,803.84 | $243.04 |
| 2002 | Agencies | Legal Aid Ontario | Morrison | Ian | Coordinator Clinic Law Conference | $109,796.28 | $254.78 |
| 2002 | Agencies | Legal Aid Ontario | Pasut | Robert | Interim Chief Information Officer | $101,148.53 | $232.52 |
| 2002 | Agencies | Legal Aid Ontario | Robertson | Heather | Area Director | $111,848.02 | $258.00 |
| 2002 | Agencies | Legal Aid Ontario | Seguin | Michelle | VP, Corporate Services | $141,526.66 | $317.28 |
| 2002 | Agencies | Legal Aid Ontario | Silver | Margaret | Area Director | $105,378.83 | $243.04 |
| 2002 | Agencies | Legal Aid Ontario | Stevens | Mary Anne | Area Director | $101,040.80 | $233.68 |
| 2002 | Agencies | Legal Aid Ontario | Thomas | Aneurin | Policy Director | $101,751.71 | $236.06 |
| 2002 | Agencies | Legal Aid Ontario | Wilkins | Keith | Counsel, Legal Aid Directorate | $113,890.11 | $261.74 |

I certify that the information provided on this record is correct in accordance with the *Public Sector Salary Disclosure Act, 1996*.

This record has been approved by:

Angela Longo
Name

PRESIDENT / CEO
Position Title

416 204 7110
Phone Number

July 24 2003
Date

Prepared under the *Public Sector Salary Disclosure Act, 1996*

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

KPMG

**KPMG** LLP
**Chartered Accountants**
Commerce Court West
PO Box 31 Stn Commerce Court
Suite 3300
Toronto ON M5L 1B2

Telephone (416) 777-8500
Telefax (416) 777-8818
www.kpmg.ca

## AUDITORS' REPORT

To the Board of Directors of the Metropolitan Toronto
Convention Centre Corporation and the Minister
of Tourism and Recreation

We have audited the balance sheet of the Metropolitan Toronto Convention Centre Corporation as at March 31, 2003 and the statements of operations, deficiency and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada

May 15, 2003

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Balance Sheet

March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---:|---:|
| **Assets** | | |
| Current assets: | | |
| Cash and short-term investments (note 2) | $ 2,095,121 | $ 3,773,938 |
| Customer deposits | 3,756,194 | 4,224,124 |
| Accounts receivable | 2,607,793 | 2,552,913 |
| Inventories | 382,941 | 301,502 |
| Prepaid expenses | 279,349 | 289,454 |
| | 9,121,398 | 11,141,931 |
| Other assets | 37,629 | 165,683 |
| Capital assets (note 3) | 136,369,528 | 146,417,054 |
| Employee future benefits (note 6) | 764,700 | 253,400 |
| | $ 146,293,255 | $ 157,978,068 |
| **Liabilities and Deficiency** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 5,126,206 | $ 4,380,485 |
| Deferred revenue | 3,756,194 | 4,224,124 |
| | 8,882,400 | 8,604,609 |
| Temporary expansion financing (note 4) | – | 158,086,714 |
| Deficiency | (7,940,933) | (8,713,255) |
| Contributed surplus (note 4) | 145,351,788 | – |
| Commitments (note 5) | | |
| | $ 146,293,255 | $ 157,978,068 |

See accompanying notes to financial statements.

Director

Director

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Statement of Operations

Year ended March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---|---|
| Revenue: | | |
| Food and beverage | $ 21,046,305 | $ 18,186,490 |
| Facility rentals | 11,733,263 | 11,480,965 |
| Parking | 5,727,274 | 5,341,624 |
| Other | 7,380,873 | 6,909,002 |
| | $ 45,887,715 | $ 41,918,081 |
| Gross operating profit | $ 27,235,707 | $ 24,619,797 |
| Operating expenses | 17,109,537 | 15,946,380 |
| Net operating income | 10,126,170 | 8,673,417 |
| Interest expense | 4,503,715 | 5,966,614 |
| Amortization, net of reallocation to operating expenses for parking garage of $96,000 (2002 - $91,968) | 4,850,133 | 4,744,464 |
| Net income (loss) | $ 772,322 | $ (2,037,661) |

Statement of Deficiency

Year ended March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---|---|
| Deficiency, beginning of year | $ (8,713,255) | $ (6,675,594) |
| Net income (loss) | 772,322 | (2,037,661) |
| Deficiency, end of year | $ (7,940,933) | $ (8,713,255) |

See accompanying notes to financial statements.

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Statement of Cash Flows

Year ended March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---|---|
| Cash provided by (used in): | | |
| Operations: | | |
| Net income (loss) | $ 772,322 | $ (2,037,661) |
| Items not involving cash: | | |
| Amortization | 4,946,133 | 4,836,432 |
| Accrued interest | 4,503,715 | 5,966,614 |
| | 10,222,170 | 8,765,385 |
| Change in non-cash operating working capital: | | |
| Accounts receivable | (54,880) | (164,647) |
| Inventories | (81,439) | 193,434 |
| Prepaid expenses | 10,105 | 74,777 |
| Employee future benefits | (511,300) | (88,798) |
| Accounts payable and accrued liabilities | 745,721 | (461,794) |
| | 10,330,377 | 8,318,357 |
| Financing: | | |
| Repayment of temporary expansion financing | (17,238,641) | (9,606,843) |
| Investments: | | |
| Recovery of asset costs | 7,446,127 | – |
| Additions to capital assets | (2,216,680) | (1,991,123) |
| | 5,229,447 | (1,991,123) |
| Decrease in cash and short-term investments | (1,678,817) | (3,279,609) |
| Cash and short-term investments, beginning of year | 3,773,938 | 7,053,547 |
| Cash and short-term investments, end of year | $ 2,095,121 | $ 3,773,938 |

See accompanying notes to financial statements.

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements

Year ended March 31, 2003

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The Metropolitan Toronto Convention Centre Corporation (the "Corporation") is a government business enterprise of the Ministry of Tourism and Recreation of the Province of Ontario and incorporated as a corporation without share capital under Bill 141, the Metropolitan Toronto Convention Centre Corporation Act, 1988. The Corporation is also a Crown agency under the same act and is exempt from income taxes.

The Corporation operates a convention facility for conventions, trade shows, consumer shows, corporate and food and beverage events and parking facilities.

## 1. Significant accounting policies:

(a) Revenue recognition:

Revenue from facility rentals, food and beverage sales, and the use of the Corporation's parking facilities is recognized when services are provided. Cancellation fees are recognized when an event is cancelled.

(b) Inventories:

Inventories are recorded at the lower of cost and net realizable value.

(c) Other assets:

Deferred development costs, included in other assets, represent expenses, net of pre-operating revenue, earned in the pre-operating period. The amount is being amortized on a straight-line basis over a period of five years.

(d) Capital assets:

Capital assets which are financed by government grants are shown net of applicable grants.

Capital assets are recorded at the lower of cost and net recoverable amount, which management reviews on an annual basis.

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2003

## 1. Significant accounting policies (continued):

Capital assets are recorded at cost and amortization is charged on a straight-line basis over the following estimated useful lives of the assets:

| | |
|---|---|
| Building | 50 years |
| Furniture, fixtures and computer equipment | 3 - 10 years |
| Leasehold improvements | 5 - 20 years |

(e) Deferred revenue:

Deferred revenue represents customer deposits received for future use of the Corporation's facilities. Deposits are applied against the customer's billing.

(f) Financial instruments:

The carrying values of short-term investments, customer deposits, accounts receivable and accounts payable and accrued liabilities approximate fair values due to their short-term nature.

(g) Use of estimates:

The preparation of the Corporation's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the year. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2003

## 2. Cash and short-term investments:

| | 2003 | 2002 |
|---|---|---|
| Cash | $ 2,095,121 | $ 1,621,655 |
| Short-term investments | – | 2,152,283 |
| | $ 2,095,121 | $ 3,773,938 |

## 3. Capital assets:

| | | | 2003 | 2002 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Building | $ 218,990,360 | $ 22,537,876 | $ 196,452,484 | $ 208,322,437 |
| Furniture, fixtures and computer equipment | 14,165,691 | 10,437,279 | 3,728,412 | 3,595,067 |
| Leasehold improvements | 26,464,008 | 24,723,525 | 1,740,483 | 2,700,784 |
| | 259,620,059 | 57,698,680 | 201,921,379 | 214,618,288 |
| Less government grants | 85,914,604 | 20,362,753 | 65,551,851 | 68,201,234 |
| | $ 173,705,455 | $ 37,335,927 | $ 136,369,528 | $ 146,417,054 |

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2003

---

## 4. Temporary expansion financing:

| | 2003 | 2002 |
|---|---|---|
| Ontario Financing Authority | $ – | $ 158,086,714 |

Pursuant to an Order in Council, the Ontario Financing Authority released the Corporation, as of March 30, 2003, from all its obligations under the temporary expansion financing facility.

Additionally, the Corporation has resolved a dispute regarding the construction of the South Facility, resulting in a $9,500,000 settlement, plus interest, payable to the Corporation. Of this amount, $7,446,127 was received in the year ended March 31, 2003. The remaining $2,375,000 is payable in two equal instalments, each in the amount of $1,187,500, and due on August 31, 2003 and February 29, 2004. In accordance with the Order in Council discussed above, the Corporation is required to pay all proceeds received as a result of the settlement to the Province of Ontario. The Corporation recorded the amount received during the year as a reduction in capital assets and a reduction in the temporary expansion financing facility.

The balance of the temporary expansion financing facility, as at March 30, 2003, in the amount of $145,351,788 (after repayments during the year of $9,752,514 and payment of $7,446,127 from the settlement proceeds) has been transferred to contributed surplus.

## 5. Commitments:

The Corporation is committed to minimum annual lease payments under various operating leases for facility rental premises, parking premises, office premises, vehicles, computer equipment and equipment, as follows:

| | |
|---|---|
| 2004 | $ 5,702,202 |
| 2005 | 5,482,946 |
| 2006 | 5,401,982 |
| 2007 | 5,430,524 |
| 2008 | 5,504,446 |
| Thereafter | 333,475,917 |
| | $ 360,998,017 |

The Corporation has agreed to pay the Province of Ontario an annual amount of $2,500,000, pursuant to the Order in Council discussed in note 4.

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2003

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## 6. Employee future benefits:

The Corporation maintains a contributory, defined benefit pension plan. Contributions are made by employees at specified rates and by the sponsor in such amounts and at such times as determined by the consulting actuaries. The plan provides pension benefits based on the length of service and final average earnings. In addition, certain retired employees also receive health benefits paid for by the Corporation.

The cost of pension and other future benefits earned by employees is determined using the projected benefit method prorated on service and is charged to expense as services are rendered. This cost reflects management's best estimates of the pension plan's expected investment yields, salary escalations, mortality of members, terminations and the ages at which members will retire. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized over the average remaining service lives of the employees.

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2003

## 6. Employee future benefits (continued):

Information about the Corporation's pension plan and employee benefit arrangements are detailed in the table below:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Pension plan | Employee benefits | Pension plan | Employee benefits |
| Plan assets: | | | | |
| Market value, beginning of year | $ 6,447,100 | $ – | $ 6,133,732 | $ – |
| Actual return on plan assets | (271,500) | – | (245,732) | – |
| Employer contributions | 1,268,500 | 500 | 495,400 | 500 |
| Employee contributions | 309,800 | – | 246,400 | – |
| Benefits paid | (87,700) | (500) | (182,700) | (500) |
| Market value, end of year | $ 7,666,200 | $ – | $ 6,447,100 | $ – |
| Plan obligation: | | | | |
| Accrued benefit obligation, beginning of year | $ 6,325,400 | $ 825,500 | $ 5,702,819 | $ 681,200 |
| Current service cost | 877,700 | 55,400 | 698,200 | 52,300 |
| Interest cost | 501,100 | 61,600 | 427,300 | 53,200 |
| Benefits paid | (87,700) | (500) | (182,700) | (500) |
| Actuarial losses (gains) | 201,300 | 94,500 | (320,219) | 39,300 |
| Accrued benefit obligation, end of year | $ 7,817,800 | $ 1,036,500 | $ 6,325,400 | $ 825,500 |
| Plan surplus (deficit): | | | | |
| Market value less accrued benefit obligation, end of year | $ (151,600) | $ (1,036,500) | $ 121,700 | $ (825,500) |
| Unamortized net actuarial loss | 1,790,100 | 162,700 | 885,400 | 71,800 |
| Accrued benefit asset (liability) | $ 1,638,500 | $ (873,800) | $ 1,007,100 | $ (753,700) |
| Benefit plan expense: | | | | |
| Current service cost, net of employee contributions | $ 567,900 | $ 55,400 | $ 451,800 | $ 52,300 |
| Interest cost | 501,100 | 61,600 | 427,300 | 53,200 |
| Expected return on plan assets | (483,900) | – | (577,200) | – |
| Net amortization | 52,000 | 3,600 | (2,000) | 1,700 |
| Net benefit plan expense | $ 637,100 | $ 120,600 | $ 299,900 | $ 107,200 |
| Actuarial assumptions: | | | | |
| Discount rate | 6.5% | 6.5% | 7.0% | 7.0% |
| Expected long-term rate of return on plan assets | 7.0% | – | 8.5% | – |
| Rate of compensation increase | 4.0% | – | 4.0% | – |
| Medical inflation | – | 6.0% | – | 6.0% |

**Metro. Toronto Convention Centre Corporation**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| FERNANDES | ANGELO | Executive Chef | $160,723.14 | $6,296.51 |
| HOUGHTON | JOHN | VP Sales & Marketing | $172,684.63 | $6,433.19 |
| KWOK | ANNIE | Director of Catering | $150,850.27 | $589.70 |
| LEE | ESTHER | VP HR & Administration | $134,977.28 | $563.18 |
| LILLEYMAN | TIMOTHY | Food & Beverage Director | $154,723.14 | $5,159.63 |
| QUATTROCIOCCHI | VINCE | VP of Operations | $113,853.21 | $6,898.48 |
| SMITH | BARRY | President & CEO | $290,761.71 | $9,664.55 |
| STODDART | CAROLE | VP Customer Services | $113,992.47 | $8,404.98 |

## NORTHERN ONTARIO HERITAGE FUND CORPORATION

### *Auditor's Report*

To the Northern Ontario Heritage Fund Corporation
and to the Minister of Northern Development and Mines

I have audited the balance sheet of the Northern Ontario Heritage Fund Corporation as at March 31, 2003 and the statements of revenue and expenses and net investment by the Province of Ontario and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 30, 2003

J.R. McCarter, CA
Assistant Provincial Auditor

## NORTHERN ONTARIO HERITAGE FUND CORPORATION

### Balance Sheet
### As at March 31, 2003

| | 2003 ($000s) | 2002 ($000s) |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents (Note 3) | **208,934** | 239,187 |
| Accrued interest | **5,322** | 4,823 |
| Loans receivable (Note 4) | **30,775** | 30,705 |
| | **245,031** | 274,715 |
| Patten Post Diversification Fund under administration (Note 5) | **15,002** | 15,263 |
| | **260,033** | 289,978 |
| **Liabilities** | | |
| Patten Post Diversification Fund under administration (Note 5) | **15,002** | 15,263 |
| Commitments (Note 8) | | |
| **Investment by the Province of Ontario** | | |
| Net investment by the Province of Ontario | **245,031** | 274,715 |
| | **260,033** | 289,978 |

See accompanying notes to financial statements.

On behalf of the Board:

Jim Wilson
Chair

Alan Spacek
Director

## NORTHERN ONTARIO HERITAGE FUND CORPORATION

### Statement of Revenue and Expenses and Net Investment by the Province of Ontario
### For the Year Ended March 31, 2003

| | 2003<br>($000s) | 2002<br>($000s) |
|---|---|---|
| **Revenue** | | |
| Province of Ontario grant | | |
| Operating | **60,000** | 60,000 |
| Administration (Note 7) | **788** | 923 |
| Interest income | **8,555** | 11,232 |
| Interest on loans receivable | **1,716** | 1,727 |
| | **71,059** | 73,882 |
| **Expenses** | | |
| Grants | **96,227** | 40,854 |
| Forgivable loans | **2,357** | 2,129 |
| Credit and investment losses, net of recoveries (Note 6) | **870** | 2,041 |
| Administration (Note 7) | **1,289** | 1,283 |
| | **100,743** | 46,307 |
| Excess of (expenses over revenue) revenue over expenses | **(29,684)** | 27,575 |
| **Net investment by the Province of Ontario, beginning of year** | **274,715** | 247,140 |
| **Net investment by the Province of Ontario, end of year** | **245,031** | 274,715 |

See accompanying notes to financial statements.

## NORTHERN ONTARIO HERITAGE FUND CORPORATION

### Statement of Cash Flows
### For the Year Ended March 31, 2003

| | 2003<br>($000s) | 2002<br>($000s) |
|---|---|---|
| **Lending, Investing and Financial Assistance Activities** | | |
| Loan disbursements | (5,984) | (5,209) |
| Loan repayments and recoveries | 5,353 | 1,846 |
| Grants and forgivable loans | (97,323) | (42,241) |
| Interest received on loans receivable | 323 | 338 |
| | (97,631) | (45,266) |
| **Financing Activities** | | |
| Cash contributions from the Province for: | | |
| Lending and financial assistance activities | 60,000 | 60,000 |
| Administration | 788 | 923 |
| | 60,788 | 60,923 |
| **Operating Activities** | | |
| Interest income received | 7,879 | 12,360 |
| Administration costs | (1,289) | (1,283) |
| Due from Patten Post Diversification Fund | - | 20 |
| | 6,590 | 11,097 |
| **(Decrease) Increase in cash and cash equivalents** | (30,253) | 26,754 |
| **Cash and cash equivalents, beginning of year** | 239,187 | 212,433 |
| **Cash and cash equivalents, end of year** | 208,934 | 239,187 |

## NORTHERN ONTARIO HERITAGE FUND CORPORATION

### Notes to Financial Statements
### March 31, 2003

---

### 1. NATURE OF THE BUSINESS

The Corporation was established, without share capital, on June 1, 1988 under the *Northern Ontario Heritage Fund Act.* The purpose of the Corporation is to fund infrastructure improvements and economic development opportunities in Northern Ontario by providing financial assistance by way of conditional contributions, forgivable performance loans, incentive term loans and loan guarantees.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management. The significant accounting policies used to prepare these statements are summarized below.

#### (a) Basis of Accounting

The financial statements have been prepared using the accrual method of accounting.

#### (b) Transactions with the Province of Ontario

The Province of Ontario contributes funds to finance the lending and financial assistance activities and reimburses the Corporation for certain administration expenses. The Province's investment is reduced by the net cost of operations.

#### (c) Loans Receivable

Loans receivable are stated at their estimated net realizable value. Interest-free loans are discounted at the average provincial borrowing rate to determine the present value of the loan. The difference between the face value of the loan and its present value is in substance, a grant, and is recognized as grants expense in the year when the loan is made. The amount of the loan discount is amortized to interest income over the term of the loan.

#### (d) Provision of Credit Losses

Credit losses arise on loans receivable issued to other lenders by the Corporation. In addition to specific write-offs and write-downs, a provision for credit losses is maintained in an amount considered adequate to absorb anticipated credit-related losses. The provision for losses on loans consists of provisions on specific loans and a general provision, and is deducted from loans receivable.

The amounts written off and written down in the year, net of realized recoveries of amounts written off and written down in prior years, and changes in provisions are charged to credit and investment losses in the Statement of Revenue and Expenses and Net Investment by the Province of Ontario.

#### (e) Revenue Recognition

Interest income is recognized on the accrual basis.

#### (f) Forgivable Loans

Generally, loans are forgiven on condition that the borrower has met certain requirements after the loan is disbursed. The Corporation expenses forgivable loans disbursed.

## NORTHERN ONTARIO HERITAGE FUND CORPORATION

**Notes to Financial Statements**
**March 31, 2003**

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Use of Estimates

Preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of receipts and expenses during the reporting period. Actual results could differ from those estimated.

### 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and highly liquid investments.

The *Northern Ontario Heritage Fund Act* restricts investments to securities issued or guaranteed by the provinces, Canada, United States, United Kingdom, the International Bank for Reconstruction and Development and any Canadian Schedule I or II bank, and other investments as authorized by the Lieutenant Governor in Council. The Corporation, through an Investment Management Agreement with the Ontario Financing Authority, invests excess funds in securities as allowed by the Act.

Cash and cash equivalents consist of:

| | **2003 ($000s)** | 2002 ($000s) |
|---|---|---|
| Cheques issued in excess of funds on deposit | **(20,653)** | (4,009) |
| Short-term investments | **229,587** | 243,196 |
| | **208,934** | 239,187 |

Short-term investments consist of treasury bills which yielded 3.22% on average (2002 – 3.19%) and have a market value that approximates carrying value.

### 4. LOANS RECEIVABLE

The Corporation engages a private sector asset management company to manage some of the Corporation's loans portfolios.

Generally, loans bear fixed interest rates ranging from 0% to 9.25% and are long-term in nature. All loans are fully repayable within 20 years from the date disbursed.

| | **2003 ($000s)** | 2002 ($000s) |
|---|---|---|
| Current | **1,672** | 2,458 |
| Long-term | **41,458** | 41,128 |
| Provision for credit losses | **(9,885)** | (10,103) |
| Loan discount | **(2,470)** | (2,778) |
| | **30,775** | 30,705 |

## NORTHERN ONTARIO HERITAGE FUND CORPORATION

**Notes to Financial Statements**
**March 31, 2003**

### 4. LOANS RECEIVABLE (CONTINUED)

The changes in the loan discount balances are as follows:

| | 2003 ($000s) | 2002 ($000s) |
|---|---|---|
| Balance, beginning of year | **2,778** | 3,343 |
| Add: Amount of loan discount charged to grant expense | **1,261** | 838 |
| Less: Amount amortized to loan interest revenue | **(1,569)** | (1,403) |
| Balance, end of year | **2,470** | 2,778 |

### 5. PATTEN POST DIVERSIFICATION FUND UNDER ADMINISTRATION

The Corporation is responsible for the administration of a Fund whose proceeds were received from Ontario Power Generation Incorporated. The objective of the Fund is to benefit communities that suffered economic hardship as a result of uranium mine closures in the Elliot Lake area. The Corporation is responsible for processing applications for funding according to established funding criteria.

The activity of the Fund was as follows:

| | 2003 ($000s) | 2002 ($000s) |
|---|---|---|
| Investment income | **390** | 535 |
| Disbursements to communities | **(651)** | (236) |
| Net results for the year | **(261)** | 299 |
| Fund balance, beginning of year | **15,263** | 14,964 |
| Fund balance, end of year | **15,002** | 15,263 |
| The Fund balance is represented by: | | |
| Cash | **400** | 535 |
| Treasury bills maturing in 90 days or less | **14,512** | 14,661 |
| Accrued interest | **90** | 67 |
| | **15,002** | 15,263 |

## NORTHERN ONTARIO HERITAGE FUND CORPORATION

**Notes to Financial Statements**
**March 31, 2003**

### 6. CREDIT AND INVESTMENT LOSSES

Credit and investment losses shown in the Statement of Revenue and Expenses and Net Investment by the Province of Ontario are net of recoveries as follows:

| | **2003 ($000s)** | 2002 ($000s) |
|---|---|---|
| Write-downs | **175** | 235 |
| Less recoveries | **(47)** | (32) |
| Increase in provision for doubtful loans | **742** | 1,838 |
| Net expenses | **870** | 2,041 |

### 7. ADMINISTRATION

Certain costs of administration such as salaries and benefits of employees, their travel, other standard government supplies and accommodation costs are borne by the Province of Ontario through the Ministry of Northern Development and Mines. All other costs are borne by the Corporation. Details are as follows:

| | **2003 ($000s)** | 2002 ($000s) |
|---|---|---|
| Salaries and benefits | **679** | 726 |
| Transportation and communications | **279** | 314 |
| Services | **124** | 164 |
| Marketing | **185** | 51 |
| Supplies and equipment | **22** | 28 |
| | **1,289** | 1,283 |
| Less: expenses borne by the Province | **788** | 923 |
| Expenses borne by the Corporation | **501** | 360 |

The Corporation provides pension benefits for all its permanent staff through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund which are both multi-employer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution pension plans as the Corporation has insufficient information to apply defined benefit plan accounting. The Corporation's share of contributions to the funds during the year was $32,418 (2002: $25,206) and is included in salaries and benefits.

## NORTHERN ONTARIO HERITAGE FUND CORPORATION

**Notes to Financial Statements**
**March 31, 2003**

### 8. COMMITMENTS

Funds committed but not disbursed as at March 31 are approximately:

| | **2003 ($000s)** | 2002 ($000s) |
|---|---|---|
| Grants | **155,000** | 89,000 |
| Forgivable loans | **12,000** | 9,000 |
| Repayable loans | **7,000** | 13,000 |
| Total commitments | **174,000** | 111,000 |

# THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

## Management's Responsibility for Financial Statements

The accompanying financial statements have been prepared by management in accordance with the Canadian generally accepted accounting principles. Where estimates or judgements have been required, management has determined such amounts on a reasonable basis in conformity with generally accepted accounting policies.

Management is responsible for all information in the financial statements and has certified that all information connected with the financial statements has been provided to the Provincial Auditor.

To assist management in the discharge of its responsibilities, The Ontario Educational Communications Authority (OEC A) maintains internal controls that are designed to provide reasonable assurance that its assets are safeguarded, to enable only valid and authorized transactions, and to ensure that accurate, timely, and comprehensive financial information is prepared.

The OECA has an internal audit unit whose functions include reviewing and commenting on internal control.

The OECA Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Board has appointed an audit committee from among its own members. The audit committee meets periodically with management, Internal Audit, and the Provincial Auditor, to discuss audit, internal control, accounting policy, and financial reporting matters. The financial statements were reviewed jointly by the audit and finance committees before approval by the Board of Directors.

The Provincial Auditor conducts an annual audit in accordance with Section II of the Ontario Educational Communications Authority Act. The auditor's report outlines the scope of the auditor's examination and opinion.

Isabel Bassett

Isabel Bassett
Chair and
Chief Executive Officer
June 10, 2003

Lee L. Robock
General Manager and
Chief Operating Officer

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

## *Auditor's Report*

To The Ontario Educational Communications Authority
and the Minister of Training, Colleges and Universities

I have audited the statement of financial position of The Ontario Educational Communications Authority as at March 31, 2003 as well as the statement of operations and equity, the statement of changes in equity and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Erik Peters

Toronto, Ontario
May 30, 2003

Erik Peters, FCA
Provincial Auditor

## THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

### Statement of Financial Position
### as at March 31, 2003

| **Assets** | **2003 ($000's)** | **2002 ($000's)** |
|---|---|---|
| **Current Assets** | | |
| Cash and short-term investments (note 3) | 11,525 | 15,155 |
| Accounts receivable (note 4) | 3,349 | 2,642 |
| Inventories | 451 | 577 |
| Prepaid expenses | 521 | 678 |
| | **15,846** | **19,052** |
| **Deferred pension charges (note 5)** | **4,579** | **4,342** |
| **Investments held for Capital Renewal (note 6)** | **3,811** | **8,034** |
| **Net Capital Assets (note 7)** | **20,955** | **16,484** |
| **Total Assets** | **45,191** | **47,912** |
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | 9,948 | 9,106 |
| Deferred revenue (note 8) | 3,223 | 3,032 |
| Lease obligations (note 9) | 64 | 106 |
| | **13,235** | **12,244** |
| **Non-Current Liabilities** | | |
| Lease obligations (note 9) | 38 | 93 |
| Employee future benefits (note 5) | 1,770 | 1,133 |
| Deferred capital contributions (note 10) | 19,341 | 20,279 |
| | **21,149** | **21,505** |
| **Equity** | | |
| Invested in capital assets | 5,324 | 4,040 |
| Restricted - Deferred pension charges (note 5) | 4,579 | 4,342 |
| Unrestricted | 904 | 5,781 |
| | **10,807** | **14,163** |
| **Total Liabilities and Equity** | **45,191** | **47,912** |

Commitments and Contingent Liabilities (notes 14 and 17)

See accompanying Notes to Financial Statements.

On behalf of the Board:

Isabel Bassett
Chair

Director

## THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY
### Statement of Operations and Equity
### for the year ended March 31, 2003

| | 2003 ($000's) | 2002 ($000's) |
|---|---|---|
| **Revenues** | | |
| Government grants and funding (note 11) | 56,717 | 52,092 |
| Earned revenue (note 12) | 15,169 | 14,028 |
| Amortization of deferred capital contributions (note 10) | 1,775 | 2,114 |
| Deferral of pension charges (note 5) | 237 | 733 |
| Capital revenue and renewal fund, net | 247 | 235 |
| | **74,145** | **69,202** |
| **Expenses** | | |
| Program services (note 13) | 60,338 | 52,968 |
| Cost of Earned revenue (note 12) | 5,271 | 6,258 |
| Administrative services | 5,719 | 4,958 |
| Amortization of capital assets | 2,973 | 3,379 |
| | **74,301** | **67,563** |
| **Excess /(Deficiency) of revenues over expenses** | **(156)** | **1,639** |
| **Equity, beginning of year** | **14,163** | **12,524** |
| **Gift to TVOntario Foundation** | **( 3,200)** | **0** |
| **Equity, end of year** | **10,807** | **14,163** |

See accompanying Notes to Financial Statements.

# THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY
## Statement of Changes in Equity
## for the year ended March 31, 2003

| | 2003 ($000's) | | | | 2002 ($000's) |
|---|---|---|---|---|---|
| | Invested in Capital Assets | Restricted Deferred Pension Charges | Unrestricted | Total | Total |
| Balance, beginning of year | 4,040 | 4,342 | 5,781 | **14,163** | **12,524** |
| Excess/(Deficiency) of revenues over expenses | (1,198) | 237 | 805 | **(156)** | **1,639** |
| Gift to TVOntario Foundation | 0 | 0 | (3,200) | **(3,200)** | **0** |
| Investment in Capital assets | 2,482 | 0 | (2,482) | **0** | **0** |
| Balance, end of year | **5,324** | **4,579** | **904** | **10,807** | **14,163** |

See accompanying Notes to Financial Statements.

## THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

### Statement of Cash Flows
### for the year ended March 31, 2003

| | 2003<br>$000's) | 2002<br>($000's) |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Excess/(Deficiency) of revenues over expenses | (156) | 1,639 |
| Add/(deduct) non-cash items: | | |
| Amortization of capital assets | 2,973 | 3,379 |
| Amortization of deferred capital contributions | (1,775) | (2,114) |
| Deferral of pension charges | (237) | (733) |
| Employee future benefits | 637 | 590 |
| (Gain)/Loss on disposal of capital assets | (27) | 28 |
| Net change in non-cash working capital: | | |
| Accounts receivable | (707) | 1,697 |
| Inventories | 126 | (26) |
| Prepaid expenses | 157 | (101) |
| Deferred revenue | 191 | 1,252 |
| Accounts payable and accrued liabilities | 842 | 1,206 |
| **ash provided by operating activities** | **2,024** | **6,817** |
| **INVESTING AND FINANCING ACTIVITIES** | | |
| Capital asset additions | (7,472) | (3,338) |
| urrent year's deferred capital contributions | 5,060 | 2,380 |
| roceeds from disposal of capital assets | 55 | 41 |
| ease obligations | (97) | (83) |
| ift to TVOntario Foundation | (3,200) | 0 |
| **ash used in investing and financing activities** | **(5,654)** | **(1,000)** |
| **et increase/(decrease) in cash position during the year** | **(3,630)** | **5,817** |
| **ash and short-term investments, beginning of year** | **15,155** | **9,338** |
| **ash and short-term investments, end of year** | **11,525** | **15,155** |

See accompanying Notes to Financial Statements.

## THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

### Notes to Financial Statements
### March 31, 2003

### 1. AUTHORITY AND MANDATE

The Ontario Educational Communications Authority (the Authority) is a provincial Crown Corporation that was created in June 1970 by an act of the Ontario Legislature. In accordance with the act, the Authority's main objective is to initiate, acquire, produce, distribute, exhibit or otherwise deal in programs and materials in the educational broadcasting and communications fields.

The Authority is a registered charitable organization which may issue income tax receipts for contributions. As a Crown Corporation of the Province of Ontario and a registered non-profit organization under the Income Tax Act, the Authority is exempt from income taxes.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of accounting

The financial statements of the Authority have been prepared in accordance with Canadian generally accepted accounting principles.

#### (b) Inventories

Program support materials are valued at the lower of cost or net realizable value where cost is determined on a weighted average basis. Stores and supplies are valued at cost, where cost is determined on a first in, first out basis and is net of an allowance for obsolescence. Video and audio tapes are valued at the lower of cost or net realizable value, where cost is determined on a first in, first out basis.

#### (c) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Capital assets are amortized on a straight line basis over the following terms beginning the year following acquisition:

| | |
|---|---|
| Building | 30 years |
| Transmitters | 17 years |
| Transmitter Monitoring Equipment | 7 years |
| In House Technical Equipment | 7 years |
| Leasehold Improvements | 5 years |
| Computer Equipment | 5 years |
| Office Furniture & Fixtures | 15 years |
| Office Equipment | 10 years |
| Vehicles | 5 years |

#### (d) Revenue recognition

1. Revenue from the licensing of program material is recognized when the rights to the program material are sold.

2. Membership contributions are recorded on a cash basis.

3. Grants and revenues received in the year for special purposes are deferred until the related expenses have been incurred.

4. Revenue from contributions restricted for the purchase of capital assets is deferred and amortized over the same period as the related capital asset.

5. Student fees for courses and General Education Development testing are recognized as revenues at the time of registration.

### (e) Employee Future Benefits

The Authority accrues its obligations under employee defined benefit plans and the related costs, net of plan assets. The transitional asset and obligations are being amortized over the expected average remaining service period of active employees expected to receive benefits under these plans. The cost of pension benefits and other post retirement benefits for the defined benefit plans are actuarially determined by independent actuaries using the projected benefit method prorated on services and management's best estimates. Pension plan assets are valued at market value.

### (f) Use of Estimates

The presentation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 3. CASH AND SHORT-TERM INVESTMENTS

The Authority's investment policy restricts short-term investments to securities issued by or guaranteed as to principal and interest by Ontario, any other province of Canada, Canada or the United Kingdom, securities issued by the United States of America or deposit receipts, deposit notes, certificates of deposit, acceptances and other similar instruments issued or endorsed by any chartered bank to which the Bank Act (Canada) applies.

Cash and short-term investments of $11,525,000 (2002 - $15,155,000) include $8,311,000 (2002 - $11,560,000) of investments maturing within 60 days, yielding 2.7% (2002 – 3.3%) on average during the year, with a market value that approximates carrying value.

## 4. ACCOUNTS RECEIVABLE

| | **2003 ($000's)** | **2002 ($000's)** |
|---|---|---|
| Project funding | 1,937 | 1,396 |
| Trade | 830 | 881 |
| Other | 582 | 365 |
| | **3,349** | **2,642** |

## 5. EMPLOYEE FUTURE BENEFITS

The Authority maintains non-contributory defined benefit pension plans and a defined contribution pension plan for its employees.

Under its defined benefit pension plan, the Authority had an accrued benefit asset at March 31 of $4,579,000 (2002-$4,342,000). The Authority's deferral of pension charges for the year was $237,000 (2002-$733,000). No employer contributions were made to the plan during the year, and pension benefits paid were $2,282,000 (2002-$2,237,000).

The Authority made no contributions to the defined contribution pension plan during the year (2002-$9,000).

The Authority also offers non-pension post retirement benefits such as health care to employees through defined benefit plans on a cost sharing basis. At March 31, the unfunded post retirement benefit plan had a net accrued benefit liability of $1,770,000 (2002-$1,133,000). The post retirement benefits paid by the Authority during the year were $87,000 (2002-$75,000). The Authority's post retirement benefits expense for the year was $724,000 (2002-$665,000).

The funded status of the Authority's defined benefits plans at March 31, in aggregate was as follows:

| | Pension Benefit Plans | | Post Retirement Benefit Plan | |
|---|---|---|---|---|
| | 2003 ($000's) | 2002 ($000's) | 2003 ($000's) | 2002 ($000's) |
| Market value of plan assets | 68,455 | 71,617 | 0 | 0 |
| Accrued benefit obligation | 67,842 | 62,617 | 5,349 | 4,632 |
| Plan surplus/(deficit) | 613 | 9,000 | (5,349) | (4,632) |

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligations are:

| | Pension Benefit Plans | | Post Retirement Benefit Plan | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Discount rate | 6.50% | 6.55% | 6.50% | 6.55% |
| Expected investment return on plan assets | 8.00% | 8.00% | 0 | 0 |
| Rate of compensation increase | 4.50% | 4.50% | N/A | N/A |
| Health cost increase | N/A | N/A | 8.50% | 7.50% |
| Dental cost increase | N/A | N/A | 4.50% | 4.00% |

Effective January 1, 2003, the pension plan covering most employees was amended to allow an unreduced pension benefit when the sum of the member's age and credited service equals 80 years or more rather than 85 years or more. The minimum age requirement remains at 55 years. Eligible members of the plan may also take advantage of an early retirement window that offers unreduced pension and bridge benefits if they retire between January 1, 2003 and January 1, 2004. The costs of this early retirement window option have not been factored into the fiscal year's actuarial results pending confirmation of participation levels.

## 6. INVESTMENTS HELD FOR CAPITAL RENEWAL

Since 1984, a portion of the funding received each year has been set aside to ensure that the Authority's technical capital assets keep pace with technological changes and can be maintained or replaced when needed. Available funds are invested in short-term deposits. The changes in the fund were as follows:

| | 2003 ($000's) | 2002 ($000's) |
|---|---|---|
| Balance, beginning of year | 8,034 | 9,380 |
| Allocation of grants from the Ministry of Training, Colleges and Universities (note 11) | 961 | 961 |
| Interest earned | 122 | 308 |
| Drawing for capital acquisitions | (5,306) | (2,615) |
| Balance, end of year | 3,811 | 8,034 |

## 7. NET CAPITAL ASSETS

Capital assets consist of the following:

| | 2003 ($000's) | | | 2002 ($000's) |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Land | 236 | 0 | 236 | 236 |
| Buildings | 4,735 | 2,884 | 1,851 | 1,991 |
| Transmitters | 26,932 | 22,023 | 4,909 | 5,735 |
| Transmitter monitoring equipment | 1,090 | 820 | 270 | 122 |
| In house technical equipment | 23,307 | 17,919 | 5,388 | 2,514 |
| Leasehold improvements | 5,336 | 3,139 | 2,197 | 878 |
| Computer equipment | 5,286 | 3,113 | 2,173 | 2,015 |
| Office furniture and fixtures | 2,338 | 1,651 | 687 | 446 |
| Office equipment | 1,150 | 905 | 245 | 247 |
| Vehicles | 534 | 352 | 182 | 259 |
| Construction in Progress | 2,817 | 0 | 2,817 | 2,041 |
| | 73,761 | 52,806 | 20,955 | 16,484 |

## 8. DEFERRED REVENUE

| | 2003 ($000's) | 2002 ($000's) |
|---|---|---|
| Provincial government programming project funding (note 11) | 3,098 | 2,963 |
| Corporate project funding and other revenue | 125 | 69 |
| | **3,223** | **3,032** |

Expenditures related to the above deferrals have been budgeted for the 2004 fiscal year.

## 9. LEASE OBLIGATIONS

Lease obligations represent the balance of the commitments made under capital leases. The changes in the lease obligations balance are as follows:

| | 2003 ($000's) | 2002 ($000's) |
|---|---|---|
| Lease obligations, beginning of year | 199 | 282 |
| Less: Payments made on existing capital leases | (97) | (74) |
| Retirement of capital leases | 0 | (9) |
| Lease obligations, end of year | **102** | **199** |
| Current lease obligations | 64 | 106 |
| Non-current lease obligations | 38 | 93 |
| | 102 | 199 |

## 10. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent contributions received for the purchase of capital assets and are recorded as revenue in the Statement of Operations and Equity where the related capital assets are amortized. The changes in the deferred contributions balance are as follows:

| | 2003 ($000's) | 2002 ($000's) |
|---|---|---|
| Deferred capital contributions, beginning of year | 20,279 | 21,359 |
| Add: Allocation of grants from the Ministry of Training, Colleges and Universities | 961 | 961 |
| Interest earned | 122 | 308 |
| Current year's deferred capital contributions | 5,060 | 2,380 |
| Less: Drawing for capital acquisitions | (5,306) | (2,615) |
| Amortization of capital contributions | (1,775) | (2,114) |
| Deferred capital contributions, end of year | **19,341** | **20,279** |

## 11. GOVERNMENT GRANTS AND FUNDING

| | 2003 ($000's) | 2002 ($000's) |
|---|---|---|
| **Provincial** | | |
| Ministry of Training, Colleges and Universities | | |
| - Base grant | 48,040 | 48,040 |
| Less: Amount allocated for capital renewal (note 6) | (961) | (961) |
| | 47,079 | 47,079 |
| Programming project grants and funding: | | |
| Ministry of Education | | |
| – Independent Learning Centre grant | 6,421 | 0 |
| – Independent Learning Centre transition funds | 500 | 0 |
| Ministry of Training, Colleges and Universities | | |
| – Life Long Learning Challenge Fund | 0 | 3,250 |
| Others | 494 | 707 |
| Funding deferred from prior year | 2,963 | 1,740 |
| Funding deferred to future year (note 8) | (3,098) | (2,963) |
| | 7,280 | 2,734 |
| **Total Provincial** | **54,359** | **49,813** |
| **Federal** | | |
| Programming project grants and funding: | | |
| Heritage Canada | 2,305 | 2,150 |
| Others | 53 | 129 |
| **Total Federal** | **2,358** | **2,279** |
| **Total government grants and funding** | **56,717** | **52,092** |

## 12. EARNED REVENUE AND COST OF EARNED REVENUE

| | 2003 ($000's) | | | 2002 ($000's) | | |
|---|---|---|---|---|---|---|
| | **Revenue** | **Cost*** | **Net Revenue** | **Revenue** | **Cost*** | **Net Revenue** |
| Sales and licensing | 1,947 | 1,775 | 172 | 3,123 | 2,553 | 570 |
| Membership and annual giving | 6,511 | 2,958 | 3,553 | 6,488 | 3,135 | 3,353 |
| Sponsorships and corporate project funding ** | 1,820 | 352 | 1,468 | 1,155 | 432 | 723 |
| Cable revenue | 1,763 | 39 | 1,724 | 1,476 | 26 | 1,450 |
| ILC student fees | 1,681 | 0 | 1,681 | 0 | 0 | 0 |
| Others | 1,447 | 147 | 1,300 | 1,786 | 112 | 1,674 |
| | **15,169** | **5,271** | **9,898** | **14,028** | **6,258** | **7,770** |

*Cost includes dedicated costs and allocated overhead costs, except for the ILC student fees (see note 16).

| | 2003<br>($000's) | 2002<br>($000's) |
|---|---|---|
| ** Sponsorships and corporate project funding: | | |
| Revenue received in the year | 1,855 | 1,188 |
| Revenue deferred from prior year | 36 | 3 |
| Revenue deferred to future year | (71) | (36) |
| | **1,820** | **1,155** |

## 13. PROGRAM SERVICES

| | 2003<br>($000's) | 2002<br>($000's) |
|---|---|---|
| Broadcast services | 43,739 | 39,876 |
| Non-broadcast learning services | 9,078 | 4,752 |
| Technical support | 4,183 | 5,117 |
| Communications and branding | 2,492 | 2,388 |
| Audience measurement and research | 846 | 835 |
| | **60,338** | **52,968** |

## 14. COMMITMENTS

The Authority has entered into capital and operating leases covering transmission facilities, offices, warehouses and equipment. Future lease payments are as follows:

| Year ending March 31 | ($000's) |
|---|---|
| 2004 | 1,978 |
| 2005 | 1,926 |
| 2006 | 1,435 |
| 2007 | 945 |
| 2008 | 399 |
| | 6,683 |
| 2009 and beyond | 7 |
| Total future lease payments | **6,690** |

The total interest payable included in the amount is $8,000.

## 15. CONTRIBUTED MATERIALS AND SERVICES

The Authority uses the services of volunteers to assist primarily in the membership area. The Authority also receives contributions of materials for use mainly in fund raising activities. Due to the difficulty of determining their fair value, contributed materials and services are not recognized in the financial statements.

## 16. THE INDEPENDENT LEARNING CENTRE

Under the terms of an agreement executed March 7, 2002 with the Ministry of Education and the Ministry of Training, Colleges and Universities, the Independent Learning Centre (ILC) was transferred to the Authority effective April 1, 2002.

The ILC provides a wide range of distance education courses, in English and in French, that allow adults to earn secondary school diploma credits, upgrade their basic skills, or study for personal development. It also supports children who may not be able to access elementary day school programs. The General Education Development (GED) testing is also available through the ILC.

Funding for these activities include grants from the Ministry of Training , Colleges and Universities and student fees. Grants are deferred until the related expenses net of student fees revenue, have been incurred.

| | 2003<br>($000's) |
|---|---|
| Activities were funded by: | |
| Ministry of Education ILC grant (note 11) | 6,421 |
| ILC student fees (note 12) | 1,681 |
| | 8,102 |
| Total costs of ILC operations (included in Non-broadcast learning services - note 13) | 5,813 |
| Ministry of Education grant deferred to 2003/04 | **2,289** |

## 17. CONTINGENT LIABILITIES

Contingent liabilities refer to possible legal claims that have been made against the Authority. Although the ultimate outcome of these claims cannot be predicted with certainty, adequate provisions have been made for those liabilities that in the opinion of management may result in future settlements. Differences between provisions and actual settlements will be accounted for at the time of settlement.

## 18. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current presentation.

## 19. THE TVONTARIO FOUNDATION

The Authority controls The TVOntario Foundation which became designated as a public foundation effective April 1, 1998. The Board of Directors of the Foundation is appointed by the Board of Directors of the Authority. The Foundation is incorporated under the Canada Corporations Act and is a registered charity under the Income Tax Act. The objectives of the Foundation are to receive and maintain a fund or funds and to pay all or part of the principal and income to the Authority provided that the Authority maintains its status as a registered charity and continues to have as its objective the promotion of educational and/or children's programming.

In accordance with Canadian generally accepted accounting principles, the accounts of the Foundation are not consolidated in the financial statements of the Authority. The financial position and results of operations for the year ended March 31, 2003 were as follows:

**Financial Position as at March 31st**

| | 2003<br>($000's) | 2002<br>($000's) |
|---|---|---|
| **Assets** | | |
| Cash and short term investment | 3,330 | 54 |
| **Total assets** | **3,330** | **54** |
| **Equity** | | |
| Restricted (Matching Gift Fund Campaign) | 3,225 | 0 |
| Unrestricted | 105 | 54 |
| **Total Equity** | **3,330** | **54** |

**Results of operations for the year ending March 31st**

| | 2003<br>($000's) | 2002<br>($000's) |
|---|---|---|
| **Revenues** | | |
| Donations | 55 | 16 |
| Restricted Gift from OECA | 3,200 | 0 |
| Interest income from Restricted Gift | 25 | 0 |
| **Total revenue** | **3,280** | **16** |
| Disbursement to OECA | 4 | 0 |
| **Excess of revenue over disbursement to OECA** | **3,276** | **16** |
| **Equity, beginning of year** | **54** | **38** |
| **Equity, end of year** | **3,330** | **54** |

The Board of Directors of the Authority has approved the funding of the Foundation's operating expenditures through the Authority until the Foundation is self-sufficient. The Foundation's net expenditures absorbed by the Authority were $38,000 during the year ended March 31, 2003 (2002 – $27,000).

The Foundation contributed $4,000 to the Authority which is equivalent to its disbursement quota for the fiscal year in compliance with the Income Tax Act.

On December 20, 2002, the Board of Directors of the Authority approved the appropriation of $3,200,000 from the unrestricted equity balance to support the establishment of a Matching Gift Fund Campaign within the Foundation. Use of the funds is subject to the terms outlined in the Deed of Gift and approval by the Board of Directors of the Authority.

The Matching Gift Fund earned an average interest rate of 2.8% since the funds were appropriated.

# THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| ARNOLD | CLARA | Director, Human Resources | $110,400.00 | $1,105.00 |
| BASSETT | ISABEL | Chair & Chief Executive Officer | $115,000.00 | $13,298.00 |
| BLACKBURN | RUSSELL | Host/ Producer | $125,581.00 | $850.00 |
| BUTTIGNOL | RUDY | Creative Head, Doc. Drama & Network | $111,063.00 | $1,161.00 |
| COLE | ELLEN T. | Director, Communications | $101,641.00 | $1,063.00 |
| ELLINGSON | PAT | Creative Head, Child. & Daytime Program. | $113,821.00 | $1,193.00 |
| GRANT | DOUG | Creative Head, Current Affairs | $119,200.00 | $1,249.00 |
| HADDON | BETH | Managing Dir. English Programming Srvcs | $126,822.00 | $1,330.00 |
| PAIKIN | STEVE | Host/ Producer | $170,821.00 | $2,406.00 |
| PAQUIN | CLAUDETTE | Managing Dir. French Programming Srvcs | $116,316.00 | $1,217.00 |
| ROBOCK | LEE | General Mgr & Chief Operating Officer | $134,000.00 | $3,347.00 |
| TAYLOR | PAMELA | Director Legal Services | $106,981.00 | $1,105.00 |
| TODD | PAULA | Host/ Producer | $160,870.00 | $1,105.00 |

## Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Ontario Electricity Financial Corporation have been prepared in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to July 25, 2003.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. Internal Audit Services of the Ministry of Finance independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and his opinion.

On behalf of Management:

Michael L. Gourley
Vice-Chair and Chief Executive Officer

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

## *Auditor's Report*

To the Ontario Electricity Financial Corporation
and to the Minister of Finance

I have audited the consolidated balance sheet of the Ontario Electricity Financial Corporation as at March 31, 2003 and the consolidated statements of revenue, expense and unfunded liability and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles recommended for governments by the Canadian Institute of Chartered Accountants.

Toronto, Ontario
July 25, 2003

Erik Peters, FCA
Provincial Auditor

## Ontario Electricity Financial Corporation

Consolidated Balance Sheet
as at March 31, 2003
($ Millions)

| | 2003 | 2002 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents (Note 5) | $ 3 | $ 23 |
| Accounts receivable | 248 | 292 |
| Interest receivable | 31 | 106 |
| Current portion of notes receivable (Note 7) | 651 | 443 |
| | 933 | 864 |
| Payments-in-lieu of tax receivable (Note 12) | 218 | 236 |
| Due from Province of Ontario (Note 6, 12) | 351 | 524 |
| Notes and loans receivable (Note 7) | 12,337 | 14,949 |
| Deferred debt costs | 673 | 905 |
| | $ 14,512 | $ 17,478 |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Accounts payable | $ 210 | $ 442 |
| Interest payable | 556 | 659 |
| Short-term notes payable (Note 8) | 3,413 | 3,996 |
| Current portion of long-term debt (Note 8) | 1,665 | 2,548 |
| | 5,844 | 7,645 |
| Long-term debt (Note 8) | 21,752 | 22,820 |
| Power purchase contracts (Note 10) | 4,125 | 4,286 |
| Nuclear funding liability (Note 11) | 2,974 | 2,812 |
| | 34,695 | 37,563 |
| **UNFUNDED LIABILITY** (Note 4, 12) | (20,183) | (20,085) |
| Contingencies and guarantees (Note 14) | | |
| | $ 14,512 | $ 17,478 |

Approved on behalf of the Board of Directors:

Bob Christie
Chair

Michael L. Gourley
Vice-Chair

*See accompanying notes to financial statements*

## Ontario Electricity Financial Corporation

Consolidated Statement of Revenue, Expense and Unfunded Liability
for the Year Ended March 31, 2003
($ Millions)

| | 2003 | 2002 |
|---|---|---|
| **REVENUE** | | |
| Debt retirement charge (Note 1) | $ 889 | $ - |
| Revenue pool residual (Note 1) | 24 | 1,296 |
| Payments-in-lieu of tax (Note 12) | 711 | 387 |
| Interest | 964 | 1,028 |
| Power sales (Note 10) | 635 | 815 |
| Net reduction of power purchase contracts (Note 10) | 161 | - |
| Electricity sector dedicated income (Note 6, 12) | 197 | - |
| Gain on sale of Hydro One notes (Note 7) | 206 | - |
| Other | 10 | 18 |
| Total Revenue | 3,797 | 3,544 |
| **EXPENSE** | | |
| Interest - short-term debt | 147 | 113 |
| - long-term debt | 1,867 | 2,223 |
| Interest on nuclear funding liability (Note 11) | 162 | 153 |
| Amortization of deferred charges | 105 | 140 |
| Electricity Consumer Price Protection Fund (Note 13) | 665 | - |
| Power purchases (Note 10) | 786 | 815 |
| Debt guarantee fee | 147 | 153 |
| Operating | 16 | 16 |
| Total Expense | 3,895 | 3,613 |
| Deficiency of revenue over expense | 98 | 69 |
| Unfunded Liability, beginning of period | 20,085 | 20,016 |
| Unfunded Liability, end of period | $ 20,183 | $ 20,085 |

*See accompanying notes to financial statements.*

## Ontario Electricity Financial Corporation

Consolidated Statement of Cash Flows
for the Year Ended March 31, 2003
($ Millions)

| | 2003 | 2002 |
|---|---|---|
| **CASH FLOWS USED IN OPERATING ACTIVITIES** | | |
| Deficiency of revenue over expense | **$ 98** | $ 69 |
| Adjustments for: | | |
| Amortization of deferred charges | **(105)** | (140) |
| Net reduction of power purchase contracts (Note 10) | **161** | - |
| Interest on nuclear funding liability (Note 11) | **(162)** | (153) |
| Payments-in-lieu of tax receivable | **(18)** | (48) |
| Net change in other balance sheet accounts | **69** | (89) |
| Net cash required by (provided from) operations | **43** | (361) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Long-term debt issues | **967** | 1,123 |
| Less long-term debt retired | **2,775** | 3,826 |
| Long-term debt retired (issued), net | **1,808** | 2,703 |
| Short-term debt retired (issued), net | **583** | (1,426) |
| Sale of notes receivable (Note 7) | **(1,878)** | - |
| Repayment of notes receivable | **(536)** | (540) |
| Net cash required by (provided from) financing activities | **(23)** | 737 |
| Increase (decrease) in cash and cash equivalents | **(20)** | (376) |
| Cash and cash equivalents, beginning of year | **23** | 399 |
| Cash and cash equivalents, end of year | **$ 3** | $ 23 |
| Interest paid during the year and included in deficiency of revenue over expense | **$ 2,117** | $ 2,411 |

*See accompanying notes to financial statements.*

## Ontario Electricity Financial Corporation
## Notes to Financial Statements

### 1. Restructuring of the Ontario Electricity Industry

Effective April 1, 1999, pursuant to the *Electricity Act, 1998*, Ontario Hydro was continued as a corporation without share capital under the name Ontario Electricity Financial Corporation (OEFC). It is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act of Canada. OEFC is a Crown agency created to manage the debt and administer the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities. These other successor entities include:

- Ontario Power Generation Inc. (OPG), an electricity generation company;
- Hydro One Inc. (Hydro One), a regulated electricity transmission and distribution business;
- Independent Electricity Market Operator (IMO), the regulated centralized independent system co-ordinator responsible for directing system operations and operating the electricity market; and
- Electrical Safety Authority (ESA), which performs a regulatory function related to electrical inspections.

On April 1, 1999, the respective business units, including assets, liabilities, employees, rights and obligations of the former Ontario Hydro, were transferred to OPG and Hydro One (and their subsidiaries) and the IMO for $8.5 billion, $8.6 billion and $78 million respectively in exchange for debt payable to OEFC. On the same day, the Province exchanged equity of $5,126 million and $3,759 million in OPG and Hydro One respectively for debt payable to OEFC.

OEFC debt, liabilities and associated financing costs will be repaid from interest on notes receivable from the Province and successor entities, and, as provided under the *Energy Competition Act, 1998*, from dedicated electricity revenues in the form of payments-in-lieu (PILs) of corporate income, capital and property taxes made by the successor entities and municipal electric utilities. Any residual debt will be serviced through a Debt Retirement Charge (DRC) to be paid by electricity consumers after open access at a rate of 0.7 cents per kilowatt hour in most Ontario communities. Until open access on May 1, 2002, OEFC continued to be a party to a revenue-allocation agreement among successor entities and was entitled to the forecast residual amount in the revenue pool after allocations to OPG, Hydro One and the IMO are paid.

### 2. Summary of Significant Accounting Policies

**Basis of Accounting**

As OEFC is a government organization, these financial statements are prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

**Measurement Uncertainty**

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurement uncertainty in these financial statements exists in the estimated amount for the Electricity Consumer Price Protection Fund, the valuation of the power purchase contracts and the estimated defeasance date for OEFC's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and will be updated annually to reflect new information as it becomes available.

**Consolidation**

These financial statements include the residual accounts of OEFC's wholly owned subsidiary, Ontario Electricity Pension Services Corporation (see Note 3).

**Deferred Debt Costs**

Deferred debt costs includes the unamortized amounts related to unrealized foreign exchange gains or losses resulting from the translation of long-term debt issued in foreign currencies and discounts, premiums or commissions arising from the issuance of debt or the acquisition of debt prior to maturity. These costs are amortized to operations over the life of the underlying debt.

**Revenue Recognition**

Revenues are recognized in the period in which they are earned.

**Foreign Currency Translation**

Debt is composed of short-, medium- and long-term bonds, notes and debentures. Debt denominated in foreign currencies that have been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the hedge agreements. Other foreign currency debt, liabilities and assets are translated to Canadian dollars at period-end rates of exchange and any exchange gains or losses are deferred and amortized over the remaining term to maturity.

**Power Purchase Contracts**

The power purchase contracts liability is valued on a discounted cash-flow (DCF) basis. Periodic revaluations of this liability will give rise to changes in the estimated cost of the contracts and will be amortized to operations over a maximum 10-year period.

## 3. Ontario Electricity Pension Services Corporation

OEFC was the administrator of the Ontario Electricity Financial Corporation Pension Plan and Fund. It was responsible for negotiating an agreement with each of the successor corporations for the division and transfer of the assets and liabilities of the OEFC pension plan to the pension plans of the successor corporations. The Ontario Electricity Pension Services Corporation, (OEPSC), a wholly owned subsidiary of OEFC, acted as agent for OEFC to carry out the required administrative, investment and other responsibilities of the OEFC Pension Plan and Fund.

OEPSC made application to the Superintendent of Financial Services for Ontario for approval to transfer all of the assets of the OEFC Pension Plan to the pension plans of the four successor operating entities. The Superintendent agreed to the transfer on June 6, 2001. With the exception of certain records and assets of nominal value, all pension fund assets were transferred to the pension plans of successor corporations on June 29, 2001. As OEPSC's functions have been completed, OEFC is in the process of winding up the company.

## 4. Economic Dependence

OEFC does not have its own credit rating and is, therefore, dependent on the Province to borrow and on-lend the funds required to refinance maturing debt and to cover any cash shortfalls in the Corporation. It is also dependent on the long-term plan to defease the unfunded liability described in Note 12. Based on the Province's support in refinancing maturing debt and the long-term plan, OEFC is considered a going concern.

## 5. Cash and Cash Equivalents

Cash and cash equivalents includes cash on deposit and highly liquid investments with maturities of less than three months. They are recorded at cost, which approximates current market value.

## 6. Due from Province of Ontario

The Province has committed to dedicate the combined net income of OPG and Hydro One in excess of the Province's financing cost of its investment in its electricity subsidiaries to OEFC. In the year ended March 31, 2003, OPG and Hydro One earned an aggregate amount of $717 million, $197 million in excess of the Province's $520 million financing cost of its investment. In 2001-02, the aggregate earnings of the subsidiaries did not exceed the Province's financing cost. The $197 million amount has been reflected as income in OEFC. In July 2002, the Province paid $370 million to OEFC towards the outstanding balance.

## 7. Notes and Loans Receivable

($ millions)

| | Maturity date | Interest rate | Interest payable | March 31, 2003 | March 31, 2002 |
|---|---|---|---|---|---|
| Province of Ontario | 2039 - 2041 | 5.85 | Monthly | $ 8,885 | $ 8,885 |
| OPG | 2005 - 2011 | 5.44 to 6.65 | Semi-annually | 3,200 | 3,200 |
| Hydro One | 2003 | 5.4 to 13.5 | Semi-annually | 651 | 2,972 |
| IMO | 2009 | 7.90 | Semi-annually | 78 | 78 |
| | | | | 12,814 | 15,135 |
| Less: Current portion of notes receivable | | | | 651 | 443 |
| | | | | 12,163 | 14,692 |
| Loans receivable from non-utility generators (NUGs) (See Note 10) | | | | 174 | 257 |
| | | | | **$ 12,337** | **$ 14,949** |

OEFC has agreed with OPG and IMO not to sell notes owing from these successor entities without their prior approval.

On March 5, 2003, with the prior approval of Hydro One, OEFC completed the sale of $1,878 million (face value) of Hydro One notes. OEFC realized a gain of $206 million on the sale as interest rates payable on the notes were above market interest rates.

In 2002, OEFC had agreed with OPG to defer principal payments of $200 million originally due in March and September, 2002 until December 2004. These maturities totalling $200 million have been further deferred until December 2006. In addition, OEFC has agreed with OPG to defer principal repayments totalling $500 million originally due in the period March 2003 to September 2004. The new maturity dates on these notes have been extended until March 2005 to September 2006.

## 8. Debt

Debt at March 31, 2003 is set out below by maturity and by currency of repayment, expressed in Canadian dollars.

| ($ millions) Currency | Canadian Dollar | U.S. Dollar | Japanese Yen | 2003 Total | 2002 Total |
|---|---|---|---|---|---|
| Maturing in: | | | | | |
| 1 year | 4,781 | 232 | 65 | 5,078 | 6,544 |
| 2 years | 3,250 | — | — | 3,250 | 1,666 |
| 3 years | 1,000 | 425 | — | 1,425 | 3,250 |
| 4 years | 119 | — | — | 119 | 1,000 |
| 5 years | 389 | 1,570 | — | 1,959 | 119 |
| 1-5 years | 9,539 | 2,227 | 65 | 11,831 | 12,579 |
| 6-10 years | 6,178 | 1,489 | — | 7,667 | 8,237 |
| 11-15 years | 648 | — | — | 648 | 1,843 |
| 16-20 years | 3,678 | — | — | 3,678 | 2,702 |
| 21-25 years | 2,077 | — | — | 2,077 | 3,037 |
| 26-50 years | 929 | — | — | 929 | 966 |
| **Total** | **$ 23,049** | **$ 3,716** | **$ 65** | **$ 26,830** | **$ 29,364** |

The effective rate of interest on the debt portfolio is 6.78 per cent (March 2002 - 6.96 per cent) before considering the effect of derivative instruments used to manage interest rate risk. The longest term to maturity is to October 17, 2031. Total foreign currency denominated debt at March 31, 2003 was $3.8 billion (March 2002 - $3.6 billion), of which $2.6 billion or 67.7 per cent (March 2002 - $1.9 billion or 52.8 per cent) was fully hedged to Canadian funds. Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province as set out below:

| | March 31, 2003 | | | March 31, 2002 | | |
|---|---|---|---|---|---|---|
| ($ millions) | Held by the Province | Guaranteed by the Province | Total | Held by the Province | Guaranteed by the Province | Total |
| Short-term debt | 3,413 | — | 3,413 | 3,996 | — | 3,996 |
| Current portion of long-term debt | 350 | 1,315 | 1,665 | 48 | 2,500 | 2,548 |
| Long-term debt | 9,791 | 11,961 | 21,752 | 9,173 | 13,647 | 22,820 |
| **Total** | **$ 13,554** | **$ 13,276** | **$ 26,830** | **$ 13,217** | **$ 16,147** | **$ 29,364** |

Fair value of debt issued approximates amounts at which debt instruments could be exchanged in a current transaction between willing parties. In valuing the OEFC's debt, fair value is estimated using discounted cash flows and other valuation techniques and is compared to public market quotations where available. These estimates are affected by the assumptions made concerning discount rates and the amount and timing of future cash flows.

The estimated fair value of OEFC debt at March 31, 2003 is $31.2 billion (March 2002 - $32.8 billion). This is higher than the book value of $26.8 billion (March 2002 - $29.4 billion) because current interest rates are generally lower than the interest rates at which the debt was issued and because of exchange rate movements. The fair value of debt does not reflect the effect of related derivative contracts.

## 9. Risk Management and Derivative Financial Instruments

OEFC employs various risk management strategies and operates within strict risk exposure limits to ensure exposure to risk is managed in a prudent and cost-effective manner. A variety of strategies are used, including the use of derivative financial instruments ("derivatives"). Derivatives are financial contracts, the value of which is derived from underlying instruments. OEFC uses derivatives for the purpose of hedging and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which OEFC agrees with another party to exchange cash flows based upon one or more notional amounts during a specified period. This allows OEFC to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by OEFC include forward foreign exchange contracts, forward rate agreements, futures and options.

Foreign exchange or currency risk is the risk of debt servicing costs and principal payments varying due to fluctuations in foreign exchange rates. To minimize currency risk, OEFC uses derivative contracts to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current policy allows unhedged foreign currency cash flows to reach a maximum of 20 per cent of total debt. At March 31, 2003, 6.3 per cent (March 2002 - 7.5 per cent) of this debt was unhedged, with most of the currency exposure to US dollars.

Floating rate risk is the exposure of OEFC to changes in short-term interest rates over a 12-month period. OEFC reduces its exposure to rate changes by entering into derivative contracts that convert floating interest payments to fixed interest payments. The current policy allows unhedged floating rate debt, net of liquid reserves, to reach a maximum of 20 per cent of total debt. At March 31, 2003, OEFC's floating rate debt as a percentage of total debt was 13.5 per cent (March 2002 - 9.8 per cent).

Liquidity risk is the risk that OEFC will not be able to meet its current short-term financial obligations. As explained in Note 4, OEFC is dependent on the Province to borrow and on-lend the funds required to refinance maturing debt and to cover any cash shortfalls in the Corporation.

The table below presents a maturity schedule of OEFC's derivatives, by type, outstanding at March 31, 2003, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

**Derivative Portfolio Notional Value**
**($ millions)**
**As at March 31, 2003**

| Maturity in Fiscal Year | 2004 | 2005 | 2006 | 2007 | 2008 | 6-10 Years | Over 10 Years | Total 2003 | Total 2002 |
|---|---|---|---|---|---|---|---|---|---|
| Cross-currency swaps | 1,046 | - | 425 | - | 496 | 388 | - | 2,355 | 1,528 |
| Interest rate swaps | 2,214 | 292 | 1,515 | 132 | 1,246 | 158 | 1,486 | 7,043 | 6,420 |
| Forward foreign exchange contracts | 720 | - | - | - | - | - | - | 720 | 974 |
| Other[1] | - | 50 | - | - | - | - | - | 50 | 250 |
| Total | $ 3,980 | 342 | 1,940 | 132 | 1,742 | 546 | 1,486 | 10,168 | $ 9,172 |

[1]Other includes swaptions and forward rate agreements.

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which OEFC has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2003.

| **Credit Risk Exposure ($ millions)** | **March 31, 2003** | **March 31, 2002** |
|---|---|---|
| Gross credit risk exposure[1] | 4,167 | 4,569 |
| Less: Netting[2] | (4,293) | (4,709) |
| Net credit risk exposure[3] | $ (126) | $ (140) |

Notes:

[1] Gross credit risk exposure includes credit exposure on swaps, options, futures, forward rate agreements and forward foreign exchange agreements.

[2] Master agreements provide for close out netting as contracts do not have coterminous settlement dates.

[3] Total exposure to counterparties with positive exposure (meaning that counterparties owed OEFC) was $202 million (March 2002 - $111 million) and the total exposure to counterparties with negative exposure (meaning that OEFC owed the counterparties) was $328 million (March 2002 - $251 million) for a total net credit exposure of ($126) million (March 2002 - ($140) million).

OEFC manages its credit risk exposure from derivatives by, among other things, dealing only with high credit quality counterparties and regularly monitoring compliance to credit limits. In addition, OEFC enters into contractual agreements (master agreements) that provide for termination netting and, if applicable, payment netting with virtually all of its counterparties. Gross credit risk exposure represents the loss OEFC would incur if every counterparty to which OEFC had credit risk exposure were to default at the same time and the contracted netting provisions were not exercised or could not be enforced. Net credit risk exposure is the loss including the mitigating impact of these netting provisions.

As at March 31, 2003, OEFC's most significant concentrations of credit risk were with three A+ or higher rated counterparties, each of which represented more than 10 per cent of the Net Credit Risk Exposure. The net cost to OEFC, if it had to replace all of the swap contracts with these three counterparties is $23 million, $62 million and $85 million, respectively.

## 10. Power Purchase Contracts

Power purchase agreements and related loan agreements were entered into by Ontario Hydro with non-utility generators (NUGs) located in Ontario. As the continued Ontario Hydro, OEFC is the counterparty to these contracts. These contracts, expiring on various dates to 2048, provide for the purchase of power at prices that are expected to be in excess of the market price. Since open access on May 1, 2002, this power has been sold at market prices that generally have been less than cost. Prior to open access, power purchased from NUGs was resold at cost to the revenue pool managed by OPG.

During the year, OEFC purchased power in the amount of $786 million (2002 - $815 million) and sold this power for $635 million (2002 - $815 million). Effective April 18, 2002, the NUG Contract Management Agreement between Enron Canada Corporation and OEFC was assigned to UBS Warburg Energy (Canada) Ltd. Annual fees include both a fixed fee of approximately $750,000 plus a variable fee based on performance in minimizing losses under NUG power purchase agreements that amounted to $10 million (2002 - $ nil).

The NUG liability had been valued at $4,286 million on a discounted cash-flow (DCF) basis since Ontario Hydro was continued as OEFC on April 1, 1999. Since the electricity market was opened in this fiscal year, the DCF model was updated as of March 31, 2003 which reduced the estimated liability from $4,286 million to $3,745 million. The revaluation change will be amortized to operations over a 10-year period. In addition, each year, interest at the DCF rate is added to the liability and the estimated in-year loss in the DCF model is deducted from the liability as set out below:

**Statement of NUG Liability**
($ millions)

| | | |
|---|---|---|
| NUG Liability, March 31, 2002 | | $ 4,286 |
| Interest charged during the year | | 253 |
| Deduct estimated in-year loss | | (372) |
| Revaluation as of March 31, 2003 | | (422) |
| Sub total | | 3,745 |
| Add: Unamortized Revaluation Changes | | |
| Gross Revaluation | 422 | |
| Accumulated Amortization | (42) | 380 |
| | | $ 4,125 |

Loans to NUGs decreased during the period by a net $83 million to $174 million at March 31, 2003 (March 31, 2002 - $257 million), primarily due to principal repayments.

## 11. Nuclear Funding Liability

OEFC as the continued Ontario Hydro received a liability in the amount of $2,378 million representing nuclear waste management and asset removal liabilities that were incurred prior to April 1, 1999. In March 2002, the Province and OPG entered into the Ontario Nuclear Funds Agreement (ONFA) to establish, fund and manage segregated funds to ensure that sufficient funds are available to pay for costs of nuclear waste management and station decommissioning. The OEFC liability will be directed to the Decommissioning Custodial Fund, which is expected to be established later in 2003.

The Board of Directors of OEFC approved the funding of the Decommissioning Custodial Fund over the next four years, thus discharging the nuclear funding liability. OEFC reflected the nuclear funding liability at April 1, 1999 and has been accruing interest annually at an estimated 5.75 per cent since that time. At March 31, 2003, this estimated accrued interest was included in the liability amount of $2,974 million (2002 - $2,812 million). The calculation of the interest rate is still under negotiation between the parties, but is expected to be finalized later in 2003. The impact of the finalization of the interest rate calculation is not expected to result in a material difference to the liability balance.

## 12. Unfunded Liability

The opening unfunded liability of $19.4 billion at April 1, 1999 was composed of $38.1 billion in liabilities assumed from old Ontario Hydro less the value of assets transferred to OEFC at April 1, 1999 including $17.2 billion in notes receivable and $1.5 billion in loans receivable and other assets. A long-term plan was established to retire OEFC liabilities from within the electricity sector. The Plan includes cash flows from the following sources as at **April 1, 1999**:

**Notes receivable** from the Province of $8.9 billion, OPG of $3.4 billion, Hydro One of $4.8 billion and IMO for $0.1 billion for a total of $17.2 billion as a result of the transfer of assets to successor companies,

**Payments-in-lieu** of corporate income, property and capital taxes made by OPG, Hydro One and municipal electric utilities,

a **Debt Retirement Charge** to be paid by ratepayers based on the consumption of electricity, and

**Electricity Sector Dedicated Income** - The combined net income of OPG and Hydro One in excess of the Province's cost of its investment in its electricity subsidiaries will be allocated to the retirement of OEFC's debt.

The long-term plan supports a current estimate that OEFC's obligations will likely be defeased in 2012.

## 13. Electricity Consumer Price Protection Fund

On November 11, 2002, the Province announced a program designed to provide electricity to low volume and designated consumers at a fixed price of 4.3 cents per kilowhatt-hour (kWh) until at least 2006, retroactive to May 1, 2002. Power generators continue to receive the free market price as set in the IMO electricity market. The program is administered through the Electricity Consumer Price Protection Fund (ECPPF) managed by OEFC.

During periods where the average price of electricity is greater than the fixed rate of 4.3 cents per kWh, the balance is funded by the ECPPF. Conversely, the ECPPF will receive funds during periods where the average price of electricity is lower than the fixed rate of 4.3 cents per kWh. Expenditures from the Fund amounting to $1,461 million in the year were reduced by a portion of the rebate paid by OPG under the Market Power Mitigation Agreement (MPMA) in the amount of $796 million leaving a net cost in OEFC of $665 million.

## 14. Contingencies and Guarantees

OEFC is involved in various legal actions arising out of the ordinary course and conduct of business, some of which relate to the former Ontario Hydro prior to the establishment of OEFC on April 1, 1999. Under the terms of the April 1, 1999 restructuring of Ontario Hydro, each successor entity (OPG, Hydro One, ESA and IMO, and their respective subsidiaries) is responsible for any liabilities relating to those operations of the former Ontario Hydro that were transferred to it. In the event any such liabilities remained with OEFC, the successor entity is also required to indemnify OEFC. With respect to legal actions relating to operations of Ontario Hydro that were retained by OEFC, the outcome and ultimate disposition of these legal actions is not determinable at this time. Accordingly, no provision for the above actions is reflected in the financial statements. Settlements of these contingencies, if any, will be reflected in the period in which settlement occurs.

Subject to a $10 million and $20 million deductible respectively, OEFC has agreed to indemnify Hydro One and OPG with respect to any adverse claim to title to any asset, right or thing transferred or intended to be transferred to the companies at April 1, 1999 and any failure of the transfer order to transfer such assets, rights or things and with respect to payment to or from or other dealing with any equity account of Ontario Hydro, including certain related litigation. The Province of Ontario has guaranteed any liability arising from these indemnifications.

OEFC is contingently liable under guarantees given to third parties that have provided long-term financing to certain independent power producers in connection with the power purchase agreements described in Note 10. These guarantees total approximately $113 million at March 31, 2003 (2002 - $124 million).

# Ontario Financing Authority

## Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Financing Authority have been prepared in accordance with accounting principles generally accepted in Canada and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 27, 2003.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with management, the internal auditors, and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:

Michael L. Gourley
CEO and Vice-Chair
Ontario Financing Authority
June 27, 2003

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

***Auditor's Report***

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Financing Authority as at March 31, 2003, and the statements of net income and retained earnings and of cash flow statement for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2003 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Erik Peters

Toronto, Ontario
June 27, 2003

Erik Peters, FCA
Provincial Auditor

## *ONTARIO FINANCING AUTHORITY*

### Summary of Financial Results

The OFA manages the Province's debt and investments and recovers its costs for these services. The OFA also provides treasury and administrative services for the Ontario Electricity Financial Corporation and recovers its costs on a fee for service basis.

Until March 31, 2003, the OFA operated the Province of Ontario Savings Office (POSO) as an agent of the Minister of Finance. In the May 9, 2001 Budget, the Minister of Finance announced that the Government would be seeking a buyer for the POSO. On September 26, 2002, the Province released a Request for Proposals to qualified bidders interested in buying the POSO. On January 28, 2003, the Government announced that Desjardins Credit Union was the successful bidder for the POSO. POSO detailed financial information is reported in the notes to the financial statements.

The OFA's income from operations for the year ended March 31, 2003 was $6.1 million, a decrease of $1.3 million from the $7.4 million reported last year. This results from lower net income from the discontinued POSO operations, including lower net interest earned of $1.3 million due to an average effective rate decrease of 0.56 per cent (from 3.40% to 2.84%), and higher POSO operating costs of $0.8 million, partly offset by higher miscellaneous revenue of $0.8 million.

Net capital assets of OFA Corporate as of March 31, 2003 were $1.0 million, representing a balance as of March 31, 2002 of $1.4 million, plus purchases of $0.5 million and less amortization of $0.9 million.

Retained earnings of OFA Corporate of $0.04 million (since inception) represent notional amounts. Annually, the OFA's financial results are consolidated on a line-by-line basis with those of the Province. This accounting treatment is in accordance with the Public Sector Accounting Board (PSAB) of the CICA, under which the OFA is considered a government organization. POSO retained earnings of $80.1 million were transferred to the Province of Ontario as of March 31, 2003.

As an intermediary for the Province, the OFA made loans to public bodies, the repayment of which is to be funded through third-party revenues. These loans are reported in Note 5(i) to the financial statements. They include loans made to the Ontario Northland Transportation Commission for the acquisition of new lumber cars, the Corporation of the City of Windsor for the construction of the Windsor Justice Facility and the Centennial Centre of Science and Technology for the development of a travelling science show. The Province of Ontario approved a loan release for the Metro Toronto Convention Centre, including principal and interest, totalling $145.4 million, effective March 30, 2003.

## *ONTARIO FINANCING AUTHORITY*

The outstanding balance of these loans, including capitalized interest, as of March 31, 2003 was $54.9 million, a net decrease of $162.4 million (from the $217.3 million reported a year ago). The decrease is due to the release by the Province of the loan and accrued interest of the Metro Toronto Convention Centre - $145.4 million. In addition, there were repayments by the Metro Toronto Convention Centre - $17.2 million, the Corporation of the City of Windsor - $3.1 million, the Ontario Northland Transportation Commission - $1.9 million and the Centennial Centre of Science and Technology - $0.3 million. The loan release and repayments are partially offset by interest capitalization of $4.5 million and an advance to the Centennial Centre of Science and Technology of $1.0 million.

The OFA continued to provide investment management services to other public bodies, including the Northern Ontario Heritage Fund Corporation, Ontario Trillium Foundation and the Ontario Securities Commission. Commencing in fiscal 2002- 03, the OFA also provided investment management services to the Ontario Realty Corporation and the Algonquin Forestry Authority. As of March 31, 2003, the OFA managed investments totalling $452.2 million (March 31, 2002 - $367.8 million), as reported in Note 5 (ii) to the financial statements.

The OFA also administers the loans receivable and payable of the former Ontario Municipal Improvement Corporation (OMIC). OMIC assets of $79 million consist of debentures receivable from various municipalities and school boards. An equal amount of liabilities are payable to Canada Pension Plan and the Province. The interest earned and paid annually on account of OMIC assets and liabilities amounts to $7.6 million and is expected to remain at this level until 2011, when CPP loans start maturing.

Commencing in April 2003, the OFA will provide treasury and administrative services for the Ontario Municipal Economic Infrastructure Financing Authority and will recover its costs on a fee for service basis.

*ONTARIO FINANCING AUTHORITY*

## BALANCE SHEET

As at March 31, 2003

| *(in thousands of dollars)* | 2003 | 2002 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | $ 136 | $ 134 |
| Accounts receivable | 4,002 | 4,576 |
| Loans receivable (note 3) | 5 | 9 |
| Discontinued operations (note 2) | - | 2,165,159 |
| **Total current assets** | $ 4,143 | $ 2,169,878 |
| **Long-term assets** | | |
| Capital assets (note 4) | 975 | 1,410 |
| Loans receivable (note 3) | 79,033 | 79,038 |
| Discontinued operations (note 2) | - | 497,381 |
| **Total assets** | $ 84,151 | $ 2,747,707 |
| **LIABILITIES AND RETAINED EARNINGS** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 5,067 | $ 6,077 |
| Due to the Province of Ontario - OMIC debt (note 3) | 5 | 9 |
| Discontinued operations (note 2) | - | 2,091,535 |
| **Total current liabilities** | $ 5,072 | $ 2,097,621 |
| **Long-term debt** | | |
| Due to CPP and the Province of Ontario (note 3) | 79,043 | 79,048 |
| Discontinued operations (note 2) | - | 497,058 |
| **Total liabilities** | $ 84,115 | $ 2,673,727 |
| **Retained earnings** | 36 | 73,980 |
| **Contingencies (note 8)** | | |
| **Total liabilities and retained earnings** | $ 84,151 | $ 2,747,707 |

*See accompanying notes to financial statements*

Approved on behalf of the Board:

Dr. Robert Christie
Chair

Michael L. Gourley
Vice-Chair and Chief Executive Officer

*ONTARIO FINANCING AUTHORITY*

## STATEMENT OF NET INCOME AND RETAINED EARNINGS

### For the year ended March 31

| *(in thousands of dollars)* | | 2003 | | *2002* |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Interest | $ | 7,600 | $ | *7,607* |
| Cost recovery from the Province | | 12,791 | | *11,770* |
| **Total revenue** | $ | 20,391 | $ | *19,377* |
| **EXPENSES** | | | | |
| Interest on long-term debt | $ | 7,597 | $ | *7,601* |
| Salaries, wages and benefits (note 5) | | 9,413 | | *8,692* |
| Administrative and general | | 2,458 | | *2,233* |
| Amortization | | 920 | | *845* |
| **Total expenses** | $ | 20,388 | $ | *19,371* |
| Income from continuing operations | $ | 3 | $ | *6* |
| Net income from discontinued operations (note 2) | | 6,132 | | *7,407* |
| Net income from operations for the year | $ | 6,135 | $ | *7,413* |
| Retained earnings, beginning of the year | | 73,980 | | *66,567* |
| Transfer of POSO retained earnings to the Province of Ontario (note 2) | | (80,079) | | - |
| Retained earnings, end of the year | $ | 36 | $ | *73,980* |

*See accompanying notes to financial statements*

*ONTARIO FINANCING AUTHORITY*

## CASH FLOW STATEMENT

For the year ended March 31

| *(in thousands of dollars)* | 2003 | 2002 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Income from continuing operations | $ 3 | $ 6 |
| Adjustments to reconcile net income to funds provided by operating activities: | | |
| Amortization | 920 | 845 |
| Net change in accounts receivable, payable and accrued liabilities | (436) | 236 |
| Cash flows from operating activities of discontinued operations | 10,608 | 7,708 |
| Cash flows from operating activities | $ 11,095 | $ 8,795 |
| **Cash flows from financing activities** | | |
| Repayments to the Province re: OMIC loans | $ (9) | $ (297) |
| Repayments from holders of OMIC loans | 9 | 297 |
| Cash flows from financing activities of discontinued operations | (370,242) | 20,235 |
| Cash flows from/(used in) financing activities | $ (370,242) | $ 20,235 |
| **Cash flows from investing activities** | | |
| Purchase of capital assets | $ (485) | $ (1,082) |
| Cash flows from investing activities of discontinued operations | 337,901 | (19,654) |
| Cash flows (used in)/from investing activities | $ 337,416 | $ (20,736) |
| Net increase (decrease) in cash | $ (21,731) | $ 8,294 |
| Cash at beginning of the year | 21,867 | 13,573 |
| **Cash at end of the year** | $ 136 | $ 21,867 |
| Cash from continuing operations | **$ 136** | **$ 134** |
| Cash from discontinued operations (note 2) | - | **21,733** |
| **Total cash** | **$ 136** | **$ 21,867** |

*See accompanying notes to financial statements*

# Notes to Financial Statements

For the year ended March 31, 2003

*(all tables are in thousands of dollars)*

## BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency of the Crown, on November 15, 1993, by the *Capital Investment Plan Act, 1993* (the "Act"). In accordance with the Act, the OFA's objects are:

- to assist public bodies and the Province of Ontario to borrow and invest money;
- to develop and carry out financing programs, issue securities, manage cash, currency and other financial risks on behalf of the Province, or any public body;
- to provide such other financial services as are considered advantageous to the Province or any public body;
- to operate offices as provided under the Province of Ontario Savings Office Act (sold March 31, 2003 See note 2), as agent for the Minister of Finance; and
- any additional objects as directed by the Lieutenant Governor in Council.

The OFA is a corporation established under the laws of Ontario. The OFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* of Canada.

## 1. SIGNIFICANT ACCOUNTING POLICIES

(i) **General:** The financial statements are prepared in accordance with Canadian generally accepted accounting principles prescribed by the Canadian Institute of Chartered Accountants.

(ii) **Capital assets:** Capital assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below, starting in the year of acquisition, i.e. half year depreciation is charged in the year of acquisition and half year in the year of disposal, irrespective of the date of acquisition or disposal.

| | |
|---|---|
| Furniture and equipment | 5 years |
| Computer hardware | 3 years |
| Leasehold improvements | remaining life of lease |

## 2. DISCONTINUED OPERATIONS - PROVINCE OF ONTARIO SAVINGS OFFICE

Until the close of business on March 31, 2003, the OFA operated the Province of Ontario Savings Office (POSO) as agent of the Minister of Finance. POSO accepted deposits from the general public, government and other public bodies. These deposits formed part of the Consolidated Revenue Fund and were direct liabilities of the Province. In the May 9, 2001 Budget, the Minister of Finance announced that the Government would be seeking a buyer for the POSO. On January 28, 2003, the Government announced that Desjardins Credit Union (Desjardins) was the successful bidder for the POSO. The sale closed on March 31, 2003. As at March 31, 2003, the net cash assets payable to Desjardins, receipt of proceeds and costs associated with the sale to Desjardins will be recorded in the Public Accounts of Ontario. The *Province of Ontario Savings Office Privatization Act, 2002* provides a maximum five year guarantee by the Minister of Finance of POSO term deposits (principal and interest) purchased up to March 31, 2003. At March 31, 2003 the principal amount of term deposit liabilities transferred to Desjardins and guaranteed by the Province

**Note 2. (Cont'd.)**

was $1,281 million, maturing as follows:

| Year ending March 31 | Principal |
|---|---|
| 2004 | $ 710,178 |
| 2005 | 242,567 |
| 2006 | 112,664 |
| 2007 | 119,782 |
| 2008 | 96,172 |
| Total | $ 1,281,363 |

The financial results of the POSO are presented below for information purposes.

The assets and liabilities of the POSO at March 31, 2003, immediately prior to the sale to Desjardins, including comparative figures, were as follows:

| | Prior to sale on March 31, 2003 | *As at March 31, 2002* |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash | $ 8,890 | *$ 21,733* |
| Accounts receivable | 22,569 | *34,876* |
| Due from the Province of Ontario | 1,696,468 | *2,108,550* |
| Total current assets | $ 1,727,927 | *$ 2,165,159* |
| Long-term Assets | | |
| Capital assets | 230 | *323* |
| Receivable from the Province of Ontario | 571,185 | *497,058* |
| Total assets | $ 2,299,342 | *$ 2,662,540* |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 22,692 | *$ 30,670* |
| Funds on deposit | 1,625,386 | *2,060,865* |
| Total current liabilities | $ 1,648,078 | *$ 2,091,535* |
| Long-term liabilities | | |
| Funds on deposit | 571,185 | *497,058* |
| Total liabilities | $ 2,219,263 | *$ 2,588,593* |
| Retained earnings | 80,079 | *73,947* |
| Total liabilities and retained earnings | $ 2,299,342 | *$ 2,662,540* |

## *ONTARIO FINANCING AUTHORITY*

**Note 2. (Cont'd.)**

The POSO operating revenues and expenses for the year ended March 31, were as follows:

| | | 2003 | | 2002 |
|---|---|---|---|---|
| Revenues | | | | |
| Interest revenue from the Province of Ontario | $ | 85,028 | $ | 105,392 |
| Miscellaneous revenue | | 2,344 | | 1,497 |
| Total revenue | $ | 87,372 | $ | 106,889 |
| Expenses | | | | |
| Interest on short-term debt | $ | 43,255 | $ | 59,411 |
| Interest on long-term debt | | 24,360 | | 27,275 |
| Salaries, wages and benefits | | 9,407 | | 8,434 |
| Administrative and general | | 4,071 | | 4,041 |
| Amortization | | 147 | | 321 |
| Total expenses | $ | 81,240 | $ | 99,482 |
| Net income from operations | $ | 6,132 | $ | 7,407 |
| Retained earnings, beginning of year | | 73,947 | | 66,540 |
| Retained earnings, end of year | $ | 80,079 | $ | 73,947 |

Pension contributions for the discontinued POSO operations for the year ended March 31, 2003 were $392,689 (March 31, 2002- $361,126). The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the above figures.

At the close of business on March 31, 2003, funds on deposit by government agencies totalled $29.3 million (March 31, 2002 - $298.5 million).

## 3. ONTARIO MUNICIPAL IMPROVEMENT CORPORATION (OMIC)

In accordance with the *Capital Investment Plan Act, 1993*, the Ontario Municipal Improvement Corporation (OMIC) ceased to exist and its assets and liabilities were transferred to the OFA on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) and the Province, which OMIC used to make loans to municipalities and school boards under similar terms as its debt.

As of March 31, 2003, the portion of long-term debt maturing in 2003-04 is $5,000 (March 31, 2002 - $9,000 maturing in 2002-2003) and is due to the Province. Long-term debt (maturing in the year ended March 31, 2005 and future) is comprised of debt due to the Province of $22,000 and to the Canada Pension Plan of $79 million (March 31, 2002 - $27,000, and $79 million respectively, maturing in year ended March 31, 2004 and future). The terms of the outstanding debt are as follows:

| | **As at March 31, 2003** | | ***As at March 31, 2002*** | |
|---|---|---|---|---|
| **Year ended March 31** | **Principal Maturing** | **Effective Average Interest Rate (%)** | ***Principal Maturing*** | ***Effective Average Interest Rate (%)*** |
| 2003 | $ - | | *$ 9* | *11.25* |
| 2004 | 5 | 11.25 | *5* | *11.25* |
| 2005 | 6 | 11.25 | *6* | *11.25* |
| 2006 | 6 | 11.25 | *6* | *11.25* |
| 2007 | - | | - | |
| 2008 | - | | - | |
| 1 - 5 years | $ 17 | | *$ 26* | |
| 6 - 20 years | 79,031 | 9.61 | *79,031* | *9.61* |
| **Total** | **$** 79,048 | | *$ 79,057* | |

## 4. CAPITAL ASSETS

The balance of capital assets, net of amortization, is as follows:

| | **Cost** | **Accumulated Amortization** | **Net Book Value March 31, 2003** | ***Net Book Value March 31, 2002*** |
|---|---|---|---|---|
| Furniture and equipment | $ 261 | $ 203 | $ 58 | *$ 54* |
| Computer hardware | 5,164 | 4,289 | 875 | *1,057* |
| Leasehold improvements | 416 | 374 | 42 | *299* |
| **Total** | $ 5,841 | $ 4,866 | $ 975 | *$ 1,410* |

*ONTARIO FINANCING AUTHORITY*

## 5. TRANSACTIONS WITH THE PROVINCE AND OTHER PUBLIC BODIES

(i) **Financing activities between the Province and other Public Bodies:** Acting as a financial conduit for the Province, the OFA provides financing to various public bodies, the repayment of which is expected from third-party revenues. The funds for these loans are advanced to the OFA by the Province under a credit facility of $2.16 billion. Repayments received from public bodies by the OFA are forwarded to the Province. These transactions are not reflected in these financial statements. In compliance with an Ontario Financing Authority Lending Policy adopted by its Board of Directors on December 17, 1997, each advance received by the OFA under the current facility bears interest at a rate that is equivalent to the rate of interest payable to the OFA on the corresponding loan to a public body(ies). As of March 31, 2003, $55 million (March 31, 2002 - $217 million), including accrued interest, was advanced by the Province to the OFA and must be repaid by the OFA on or before August 31, 2027.

Funds are generally advanced by the OFA to public bodies under interim financing arrangements, consisting of a number of promissory notes for terms not exceeding one year. Interest is payable on the principal plus any capitalized interest. As of March 31, 2003, interest rates on the receivables ranged from 2.94 per cent to 3.03 per cent (March 31, 2002 from 2.2 per cent to 2.4 per cent).The receivables represent debentures, except for the receivable from the Centennial Centre of Science and Technology. The receivable from the Centennial Centre of Science and Technology is a promissory note. It is the OFA's intention to replace the promissory note with term debt, at which point, repayment terms will be finalized

The following represents amounts receivable by the OFA on behalf of the Province, including capitalized interest. These are related party transactions, with the exception of those with the City of Windsor.

| | March 31, 2003 | *March 31, 2002* |
|---|---|---|
| Ontario Northland Transportation Commission | $ 29,180 | *$ 31,133* |
| Corporation of the City of Windsor | 24,999 | *28,110* |
| Centennial Centre of Science and Technology | 750 | *-* |
| Metro Toronto Convention Centre | - | *158,086* |
| | $ 54,929 | *$ 217,329* |

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. Members of the Commission are appointed by the Lieutenant Governor in Council.

The Corporation of the City of Windsor is a municipality within the meaning of the *Municipal Act*. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility, consisting of provincial division courthouse and city police headquarters.

The Centennial Centre of Science and Technology is a Crown agency of the Province under the *Centennial Centre of Science and Technology Act*. Its Board of Trustees is appointed by the Lieutenant Governor in Council.

The Metro Toronto Convention Centre Corporation (MTCC) is a Crown agency of the Province under the *Metropolitan Toronto Convention Centre Corporation Act*. The majority of directors on the MTCC board are appointed by the Lieutenant Governor in Council. The Province of Ontario approved a loan release for the Metro Toronto Convention Centre, including principal and accrued interest totalling $145.4 million, effective March 30, 2003.

**Note 5. (Cont'd.)**

The amount of the release reflects a balance at March 31, 2002 of $158.1 million and capitalized interest of $4.5 million, less repayments of $17.2 million.

(ii) **Investing for Related Parties**: In the normal course of operations, the OFA provides investment management services to other public bodies. Funds managed on behalf of other public bodies (which are not reflected in these financial statements) as at March 31, consist of the following:

| | March 31, 2003 | *March 31, 2002* |
|---|---|---|
| Northern Ontario Heritage Fund Corporation | $ 244,099 | *$ 257,857* |
| Ontario Trillium Foundation | 111,594 | *89,924* |
| Ontario Securities Commission | 31,996 | *19,999* |
| Ontario Realty Corporation | 62,700 | - |
| Algonquin Forestry Authority | 1,803 | - |
| Total | $ 452,192 | *$ 367,780* |

The OFA also manages debt and investment on behalf of the Province and was reimbursed $12.8 million for the year ended March 31, 2003 for these activities (March 31, 2002 - $11.8 million).

(iii) **Ontario Electricity Financial Corporation (OEFC)** : The OFA provides financial services and advice to OEFC and manages its debt portfolio - estimated at $26.8 billion, March 31, 2003 (March 31, 2002 - $29.4 billion). The OEFC is the agency responsible for servicing and retiring the debt and certain other liabilities of the former Ontario Hydro.

(iv) **Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA)** : The OFA assisted with the interim set up of OMEIFA and will provide debt, investment, cash and related financial management services to OMEIFA on a fee for service basis. OMEIFA became operational on April 22, 2003. Start up costs prior to operations amount to approximately $0.3 million and were absorbed by OFA.

## 6. PENSION PLAN

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multiemployer defined benefit plan. This plan is accounted for as a defined contribution plan, as the OFA has insufficient information to apply defined benefit plan accounting to this pension plan.

The OFA's pension contributions for the year ended March 31, 2003 were $346,552 (March 31, 2002- $252,543). The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the above figures.

## 7. FINANCIAL INSTRUMENTS

The carrying amounts for cash, accounts receivable, loans receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

**Note 7. (Cont'd.)**

Given that the terms and amounts of the OFA's long-term receivables offset the OFA's long-term debt, providing fair values for these instruments would not add any more useful information to that which has already been presented in these financial statements.

## 8. CONTINGENCIES

The Province of Ontario Savings Office was from time to time involved in various legal proceedings arising out of the ordinary course and conduct of business. Such contingencies would include civil litigation and grievance proceedings arising from the operation of POSO until the date of sale. There are no material claims outstanding. Settlements, if any, concerning these contingencies will be accounted for by the Province in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time. Contingent liabilities arising from the sale of the POSO (Note 2) and which relate to employee severance, are the liability of the Ministry of Finance. Desjardins Credit Union is liable for any employee claims and grievances relating to the period after the sale date.

Under the terms of the sale agreement between the Province and Desjardins, the Province may receive additional sale revenue should balances on deposit remain above a certain threshold on June 30, 2003. Additional revenues, if any, will be accounted for by the Province.

## 9. COMPARATIVE FIGURES

Certain of the 2001-02 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2002-03.

## *ONTARIO FINANCING AUTHORITY*

### 10. SALARIES

The *Public Sector Salary Disclosure Act, 1996*, requires disclosure of Ontario Public Sector employees paid remuneration (e.g., salary, performance-based pay and severance) during the year in excess of $100,000. The amounts paid to such individuals in calendar 2002 are as listed below:

| Name | Position | Remuneration Paid | Taxable Benefits |
|---|---|---|---|
| Charles Allain | Manager, Debt Management | $ 166,183 | $ 280 |
| Ken Broadbent | Manager, Foreign Exchange | $ 116,689 | $ 202 |
| Joseph Campos | Director, Risk Control | $ 145,607 | $ 272 |
| Robert Coke | Director, Strategic Research | $ 146,366 | $ 285 |
| James Devine | Manager, Medium term notes & Privacy Placements | $ 153,426 | $ 264 |
| Michael Gourley | Vice Chair & CEO | $ 129,593 | $ 3,427 |
| Susan Guinn | Director, Province of Ontario Savings Office | $ 118,294 | $ 209 |
| Andrew Hainsworth | Manager, Funding | $ 152,508 | $ 264 |
| John Logie | Manager, Financial Engineering | $ 116,805 | $ 202 |
| Michael Manning | Director, Debt Management | $ 228,812 | $ 369 |
| Gadi Mayman, | Executive Director, Capital Markets | $ 247,788 | $ 462 |
| Christine Moszynski | Director, Capital Markets Treasury | $ 125,913 | $ 241 |
| David Peters | Manager, Derivatives | $ 151,025 | $ 264 |
| William Ralph | Director, Corporate Finance | $ 146,286 | $ 264 |
| Ken Russell | Legal Counsel | $ 138,264 | $ 294 |
| Corey Simpson | Legal Counsel | $ 152,790 | $ 326 |

# ONTARIO HOUSING CORPORATION

## RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Ontario Housing Corporation have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to September 30, 2003.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on a periodic basis and reports its findings to management and to the Board of Directors.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board of Directors reviews and approves the financial statements.

The financial statements have been audited by the Assistant Provincial Auditor. The Assistant Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:

Toni Farley
General Manager
Ontario Housing Corporation

***Auditor's Report***

To the Ontario Housing Corporation
and to the Minister of Municipal Affairs and Housing

I have audited the statement of financial position of Ontario Housing Corporation as at December 31, 2002 and the statement of operations and accumulated deficit for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002, and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
September 30, 2003

J.R. McCarter, CA
Assistant Provincial Auditor

## ONTARIO HOUSING CORPORATION
### Statement of Financial Position
### As at December 31, 2002

| | 2002 | 2001 |
|---|---|---|
| | (thousands of dollars) | |
| **ASSETS** | | |
| Cash | 98,485 | - |
| Investments in Properties (note 2) | 34,618 | 41,009 |
| Due from Province of Ontario | 459 | 113,496 |
| | **133,562** | **154,505** |
| Non-Profit Housing Fund (note 3) | 1,360,434 | 1,360,366 |
| | **1,493,996** | **1,514,871** |
| **LIABILITIES** | | |
| Accounts Payable and Accrued Liabilities | 68,547 | 62,396 |
| Current Portion of Long-Term Debt | 32,646 | 26,962 |
| Long-Term Debt (note 4) | 989,202 | 1,027,164 |
| | **1,090,395** | **1,116,522** |
| Non-Profit Housing Fund (note 3) | 1,360,434 | 1,360,366 |
| **CONTINGENT LIABILITIES** (note 5) | | |
| **ACCUMULATED DEFICIT** | (956,833) | (962,017) |
| | **1,493,996** | **1,514,871** |

See accompanying notes to financial statements

On Behalf of the Board:

Director

Director

## ONTARIO HOUSING CORPORATION
## Statement of Operations and Accumulated Deficit
## For the Year Ended December 31, 2002

| | 2002 | 2001 |
|---|---|---|
| | (thousands of dollars) | |
| **Revenues:** | | |
| Subsidies from Province: | | |
| - Debt Service Obligations | 98,992 | 103,279 |
| - Interest Differential in Non-Profit Housing Fund (note 3) | 16,888 | 16,888 |
| Interest Received from Student Housing | 2,340 | 3,372 |
| **Total Revenues** | **118,220** | **123,539** |
| **Expenses:** | | |
| Debenture Interest: | | |
| - Devolved Properties | 66,551 | 68,504 |
| - Student Housing | 2,340 | 3,372 |
| Interest Differential in Non-Profit Housing (note 3) | 16,888 | 16,888 |
| Property Management System Implementation | - | 5,100 |
| Bursary Program | 971 | 838 |
| Miscellaneous | 213 | (210) |
| **Total Expenses** | **86,963** | **94,492** |
| Excess of Revenues over Expenses (note 6) | 31,257 | 29,047 |
| Gain on Sale of Investment | - | 12,189 |
| **Excess of revenues over expenses** | **31,257** | **41,236** |
| Return of Capital to Province | (26,073) | (12,551) |
| Accumulated Deficit, Beginning of Year | (962,017) | (990,702) |
| **Accumulated Deficit, End of Year** | **(956,833)** | **(962,017)** |

See accompanying notes to financial statements

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 2002

## NATURE OF OPERATIONS

The Ontario Housing Corporation is an agency of the Ministry of Municipal Affairs and Housing and is continued under the *Ontario Housing Corporation Act* R.S.O. 1990 c.0.21.

Until December 31, 2000 the Corporation was the largest landlord in Ontario, owning approximately 84,000 public housing units. Under the *Social Housing Reform Act 2000* (SHRA), ownership of the public housing units was transferred, effective January 1, 2001, to Local Housing Corporations (LHCs) which are controlled by Municipal Services Managers. The *SHRA* required that the assets be transferred to the LHCs for no consideration, which resulted in a loss to the Corporation.

The LHCs also assumed responsibility for administering the rent supplement program and the Ministry of Municipal Affairs and Housing assumed responsibility for the administration of the Rural and Native Housing program.

The Corporation retained its Investment in Student Housing and certain other assets. It also retained responsibility for administering the Corporation's debts, the Non-Profit Housing Fund, and contingent liabilities. The Corporation's debt service payments and other expenses are recovered from the Ministry of Municipal Affairs and Housing, in the form of subsidies.

## 1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. They reflect the Corporation's residual role which is primarily to service the federal and provincial debt related to the public housing assets that were transferred to the Local Housing Corporations (LHCs). Significant accounting policies followed by the Corporation are summarized below:

i. Subsidies from the province are accounted for as revenue, and revenue is recognized when expenses are incurred.

ii. The loss on the transfer of public housing units and other assets resulted in the Accumulated Deficit, which will be reduced each year by an amount equal to the portion of the subsidy from the province required to cover principal payments on the Corporation's long-term debt.

iii. A statement of cash flows has not been included in these financial statements because the information it would provide is readily apparent from the other financial statements and accompanying notes.

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 2002

## 2. INVESTMENTS IN PROPERTIES

The Corporation's investments in properties are as follows:

| | 2002 | 2001 |
|---|---|---|
| | (thousands of dollars) | |
| (a) Student Housing | 33,426 | 38,726 |
| (b) Provincial Housing | 1,192 | 2,283 |
| | 34,618 | 41,009 |

### (a) Student Housing

This investment represents funds advanced to universities and colleges to cover building costs for student accommodation projects. Each advance is associated with a specific long-term debt obligation of the Corporation and each educational institution makes semi-annual payments to the Corporation equal to the payments on the Corporation's corresponding long-term debt. When the debt is fully repaid, title to the properties will be transferred to the respective institutions. During 2002, one university repaid advances on three projects having an original cost of $5,680,000.

| | 2002 | 2001 |
|---|---|---|
| | (thousands of dollars) | |
| Original Cost | 47,739 | 53,419 |
| Less: Accumulated Capital Repayments | 14,313 | 14,693 |
| | 33,426 | 38,726 |

### (b) Provincial Housing

All properties were transferred to municipal LHCs in 2001 except two housing properties for which certain financial and legal issues had not been resolved as at December 31, 2001. One of the two properties was transferred on January 1, 2002. The funds advanced to cover the cost of the remaining project are associated with specific long-term debt obligations of the Corporation and the Corporation receives a subsidy from the Province equal to the payment on the Corporation's associated long-term debt.

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 2002

| | 2002 | 2001 |
|---|---|---|
| | (thousands of dollars) | |
| Original Cost | 1,262 | 2,366 |
| Less: Accumulated Capital Repayments | 70 | 83 |
| | 1,192 | 2,283 |

## 3. NON-PROFIT HOUSING FUND

The Province of Ontario authorized the Corporation to borrow funds from the Canada Pension Plan Investment Fund and loan the funds as mortgages to non-profit housing corporations and universities and colleges to build, acquire or lease housing units. The CPP funds were borrowed from 1989 to 1992 and are repayable 20 years from the date of issuance of the debentures. Interest is payable semi-annually at various rates based on individual debentures - weighted average rate of 10.3%.

The majority of the CPP funds were initially loaned to non-profit housing corporations. However, during the 1993-2000 period these loans were refinanced in the private sector and, because the debentures could not be repaid ahead of their maturity dates, the funds were loaned to the Province.

As of December 31, 2002 the Fund consisted of:

| | 2002 | 2001 |
|---|---|---|
| | (thousands of dollars) | |
| **Assets** | | |
| Cash | 3,811 | 3,743 |
| Loans to Province of Ontario | 1,157,212 | 1,157,212 |
| Mortgages to Universities and Colleges | 166,128 | 166,128 |
| Interest Receivable | 33,283 | 33,283 |
| | 1,360,434 | 1,360,366 |
| **Liabilities and Fund Balance** | | |
| Canada Pension Plan Investment Fund | 1,323,340 | 1,323,340 |
| Interest Payable | 33,283 | 33,283 |
| Fund Balance | 3,811 | 3,743 |
| | 1,360,434 | 1,360,366 |

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 2002

The interest rates on the mortgages to universities and colleges are the same as those payable on the corporation's corresponding debentures. However, the interest rates on the loans to the Province reflect the lower rates in effect at the time they were made and thus the interest payments are not sufficient to service the debentures. The Corporation receives an interest differential subsidy from the Ministry of Municipal Affairs and Housing to cover the shortfall.

Details of the transactions related to the fund balance are as follows:

| | 2002 | 2001 |
|---|---|---|
| | (thousands of dollars) | |
| Balance – Beginning of Year | 3,743 | 3,615 |
| Interest Earned – Loans, Mortgages, Bank | 119,157 | 119,217 |
| Interest Differential Subsidy from the Ministry of Municipal Affairs and Housing | 16,888 | 16,888 |
| Interest Paid on CPP Debentures | (135,977) | (135,977) |
| Balance – End of Year | 3,811 | 3,743 |

## 4. LONG TERM DEBT

Long term debt is comprised of the following:

| | 2002 | 2001 |
|---|---|---|
| | (thousands of dollars) | |
| Canada Mortgage and Housing Corporation | 911,935 | 943,687 |
| Loans Repayable to Province | 109,913 | 110,439 |
| | 1,021,848 | 1,054,126 |
| Less: Current Portion | 32,646 | 26,962 |
| | 989,202 | 1,027,164 |

The Corporation borrowed funds from the Canada Mortgage and Housing Corporation (CMHC) and received capital funds from the Province of Ontario to finance investments in real property – now devolved to Local Housing Corporations. The capital funds provided by the Province, which had previously been included in Contributed Surplus, have been reclassified as Loans Repayable to Province, with interest and principal payments being made to the Minister of Finance. The interest expense is included in the Statement of Operations and Deficit and is off-set by the subsidy from the Ministry of Municipal Affairs and Housing.

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 2002

Interest on both the CMHC debt and the Loans Repayable to Province is payable at various rates based on individual agreements – the weighted average rates are 6.8% and 7.1% respectively (2001 – 6.9% and 7.2% respectively). Interest expense for the year totaled $70.7 million (2001 – $71.9), $7.9 million (2001 – $8.2) of which was paid to the Province.

Scheduled payments of principal and interest over the next five years are as follows:

| | CMHC Debentures | Loans Repayable to Province | Total |
|---|---|---|---|
| | | thousands of dollars | |
| 2003 | 91,712 | 11,439 | 103,151 |
| 2004 | 91,662 | 11,423 | 103,085 |
| 2005 | 91,628 | 11,414 | 103,042 |
| 2006 | 91,531 | 11,382 | 102,913 |
| 2007 | 90,743 | 11,290 | 102,033 |

## 5. CONTINGENT LIABILITIES

The Corporation previously entered into loan insurance agreements with CMHC pertaining to mortgage loans on projects funded under various provincially-funded non-profit housing programs administered by the Ministry. Under these agreements, CMHC has insured mortgage loans made by lenders approved under the National Housing Act for the purpose of purchasing, improving, constructing or altering housing units. While the insurance is provided by CMHC, the Corporation is liable to CMHC for any net costs, including any environment liabilities, incurred as a result of loan defaults on projects funded by the Province. The Ministry of Municipal Affairs and Housing will reimburse any costs incurred by the Corporation. As of December 31, 2002, there were $5.0 billion of mortgage loans outstanding on provincially funded projects. To date, there have been no claims for defaults on the insured mortgage loans.

The Corporation is a defendant in a legal suit. It is not possible to predict the cost to the Corporation, if any, of the resolution of the dispute.

## 6. EXCESS OF REVENUES OVER EXPENSES

The subsidies from the Province include amounts intended to cover the interest and principal payments on the Corporation's long-term debt. The interest is included in the Corporation's expenses and the excess of revenues over expenses represents the principal payments.

## 7. ADMINISTRATIVE EXPENSES

The Ministry of Municipal Affairs and Housing provides administrative services to the Corporation at no charge.

## 8. DETERMINATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Corporation's financial instruments, as explained below, are based on relevant market prices and information available at December 31, 2002. The fair value estimates are not necessarily indicative of the amounts that the Corporation might receive or incur in actual market transactions. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value of the amount due from the Province of Ontario and accounts payable and accrued liabilities approximate their carrying values because of the short-term nature of these items.

The fair value of CMHC debentures is based on the future cash flows associated with each instrument discounted using an interest rate based on debt instruments with similar characteristics. At December 31, 2002, the aggregate fair value of the CMHC debentures was more than their aggregate book values by $53.9 million (2001 - $43.6 million).

Since the Corporation is controlled by the Province of Ontario, the fair value of loans repayable to province ($109,913,000 at December 31, 2002) has not been calculated.

# ONTARIO PLACE CORPORATION

## auditor's report

To Ontario Place Corporation
and to the Minister of Tourism and Recreation

I have audited the balance sheet of Ontario Place Corporation as at December 31, 2002 and the statements of operations and equity, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

J. R. McCarter, C.A., Assistant Provincial Auditor
Toronto, Ontario
June 20, 2003

## Responsibility for Financial Reporting

The management of Ontario Place Corporation is responsible for the integrity and fair presentation of the financial statements accompanying this report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

The Corporation maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed by the Corporation's Audit Committee and have been approved by its Board of Directors. In addition, the financial statements have been audited by the Provincial Auditor, whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report that appears as part of the financial statements outlines the scope of the Auditor's examination and opinion.

Glenn Dobbin
General Manager

# financial statements

## Balance Sheet as at December 31, 2002

|  | 2002<br>($000's) | 2001<br>($000's) |
|---|---|---|
| *Assets* |  |  |
| Current Assets |  |  |
| Cash | 2,406 | 986 |
| Accounts receivable | 531 | 958 |
| Due from the Province of Ontario | - | 172 |
| Inventory | 12 | 5 |
| Prepaid expenses | 152 | 62 |
|  | 3,101 | 2,183 |
| **Capital Assets** (Note 3) | 113,816 | 114,395 |
|  | 116,917 | 116,578 |
| *Liabilities and Equity* |  |  |
| **Current Liabilities** |  |  |
| Accounts payable and accrued liabilities | 1,683 | 1,447 |
| Due to the Province of Ontario | 59 | - |
| Deferred revenue | 267 | 344 |
|  | 2,009 | 1,791 |
| **Deferred Capital Contributions** (Note 4) | 11,999 | 11,858 |
| **Unspent Deferred Capital Contributions** (Note 4) | 190 | 677 |
|  | 12,189 | 12,535 |
| **Equity** |  |  |
| Invested in capital assets | 101,817 | 102,537 |
| Retained income (deficit) | 902 | (285) |
|  | 102,719 | 102,252 |
|  | 116,917 | 116,578 |

Commitments (Note 7)

See accompanying schedules and notes to financial statements

Approved on behalf of the Corporation

John Langhorne, Director

James Ginou, Director

# financial statements

## Statement of Operations and Equity
## For the year ended December 31, 2002

| | 2002<br>($000's) | 2001<br>($000's) |
|---|---|---|
| Operating revenue (Schedule 1) | 12,674 | 11,919 |
| Administrative and operating expenses (Schedule 2) | 14,515 | 15,067 |
| Operating deficit before the following | (1,841) | (3,148) |
| Province of Ontario operating grants | 3,028 | 2,960 |
| Amortization of deferred capital contributions | 1,657 | 1,598 |
| Amortization of capital assets | (2,377) | (2,322) |
| Refund of prior year property taxes (Note 8) | - | 812 |
| | 2,308 | 3,048 |
| **Net income (loss) for the year** | 467 | (100) |
| **Equity, beginning of year** | 102,252 | 102,352 |
| **Equity, end of year** | 102,719 | 102,252 |

## Statement of Changes in Equity
## For the year ended December 31, 2002

| | 2002<br>($000's) | | | 2001<br>($000's) |
|---|---|---|---|---|
| | Invested in Capital Assets | Retained Income (Deficit) | Total | Total |
| Balance, beginning of year | 102,537 | (285) | 102,252 | 102,352 |
| Net income | (720) | 1,187 | 467 | (100) |
| **Balance, end of year** | 101,817 | 902 | 102,719 | 102,252 |

See accompanying schedules and notes to financial statements.

## financial statements

*Statement of Cash Flows*
*For the year ended December 31, 2002*

| | 2002<br>($000's) | 2001<br>($000's) |
|---|---|---|
| **Operating Activities** | | |
| Net income (loss) for the year | 467 | (100) |
| Adjustments against net income not requiring an outlay of cash | | |
| -amortization of capital assets | 2,377 | 2,322 |
| -amortization of deferred capital contributions | (1,657) | (1,598) |
| Net change in non-cash working capital | 720 | 178 |
| Cash generated from operating activities | 1,907 | 802 |
| **Investing Activities** | | |
| Capital assets acquisitions | (1,798) | (3,057) |
| Cash used in investing activities | (1,798) | (3,057) |
| **Financing Activities** | | |
| Capital Grants Received | 1,561 | 2,301 |
| Transfer of funds to Parks Canada (Note 5) | (250) | - |
| | 1,311 | 2,301 |
| **Increase in cash during the year** | 1,420 | 46 |
| **Cash, beginning of year** | 986 | 940 |
| **Cash, end of year** | 2,406 | 986 |

See accompanying schedules and notes to financial statements.

# financial statements

## Schedules of Operating Revenue and Administrative and Operating Expenses For the year ended December 31, 2002

| **Schedule 1**<br>**Operating Income** | 2002<br>($000's) | 2001<br>($000's) |
|---|---|---|
| Admissions | 5,807 | 5,650 |
| Parking | 1,876 | 1,599 |
| Concessions and catering | 1,524 | 1,482 |
| Marina | 811 | 754 |
| Cinesphere revenues | 679 | 742 |
| Sponsorship revenue | 392 | 621 |
| Attractions | 236 | 253 |
| Interest income | 55 | 58 |
| Amphitheatre | 820 | 510 |
| Other revenue | 474 | 250 |
| | 12,674 | 11,919 |

**Schedule 2**
**Administrative and Operating Expenditures**

| | | |
|---|---|---|
| Salaries and wages | 5,982 | 6,064 |
| Employee benefits (Note 6) | 749 | 770 |
| Advertising | 1,629 | 1,757 |
| Programming and entertainment | 1,534 | 1,800 |
| Site maintenance | 973 | 1,444 |
| General and administration | 625 | 535 |
| Supplies | 794 | 606 |
| Utilities | 1,076 | 944 |
| Janitorial | 467 | 435 |
| Sponsorship | 11 | 20 |
| Transportation and communication | 302 | 336 |
| Professional consulting | 178 | 202 |
| Other | 195 | 154 |
| | 14,515 | 15,067 |

See accompanying notes to financial statements.

# notes to financial statements December 31, 2002

## 1. Nature of Operation

Ontario Place Corporation, (the "Corporation" or "Ontario Place") a provincial Crown agency, operates a park built on a 96-acre site extending through three islands created using landfill along the Toronto waterfront. The park includes a wide variety of programs, attractions and facilities which capture the spirit of Ontario by featuring distinctive and quality attractions for all ages. The site is intended to provide visitors with an appreciation of the Province's resources and accomplishments.

The fees charged for admission and the various attractions within the park are subject to approval by the Province of Ontario (the "Province"). The Province also provides grants to partially cover the costs of activities, programs and rejuvenation of the park.

In addition to the various attractions and activities operated directly by Ontario Place, the Corporation entered into a number of licence, ground lease and special event agreements with various private-sector companies for the 2002 season.

## 2. Significant Accounting Policies

### (a) Basis of Accounting

The financial statements are the representations of management prepared in accordance with generally accepted accounting principles.

### (b) Inventory

Supplies inventory is valued at cost.

### (c) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the assets as indicated below:

| | |
|---|---|
| Buildings | 25 years |
| Attractions | 10 years |
| Equipment, fixtures | 10 years |
| Computer equipment | 4 years |

### (d) Revenues

Under the Park's Play All Day Admission Policy, most of the related revenue is allocated to Admissions with the exception of a small portion allocated to certain attractions.

### (e) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles require that management make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

# notes to financial statements December 31, 2002

## 3. Capital Assets

Capital assets consists of the following:

| | 2002 | | | 2001 |
|---|---|---|---|---|
| | Cost ($000's) | Accumulated Amortization ($000's) | Net Book Value ($000's) | Net Book Value ($000's) |
| Land, waterlots | 101,660 | - | 101,660 | 101,660 |
| Buildings | 6,540 | 2,050 | 4,490 | 4,747 |
| Attractions | 9,929 | 5,803 | 4,126 | 3,820 |
| Equipment, fixtures | 8,133 | 4,776 | 3,357 | 3,890 |
| Computer equipment | 376 | 193 | 183 | 278 |
| | 126,638 | 12,822 | 113,816 | 114,395 |

## 4. Deferred Capital Contributions

Deferred capital contributions represent the amount of restricted grants received for the purchase of depreciable capital assets. Purchased assets have been capitalized and the total grant has been deferred and will be amortized into income on the same basis that the assets are amortized. The changes in the deferred capital contributions balance are as follows:

| | 2002 ($000's) | 2001 ($000's) |
|---|---|---|
| Balance, beginning of year | 12,535 | 11,832 |
| Amount amortized to revenue | (1,657) | (1,598) |
| Capital grants received | 1,561 | 2,301 |
| Transfer to Parks Canada (Note 5) | (250) | - |
| Balance, end of year | 12,189 | 12,535 |

## 5. Sale of H.M.C.S. Haida to Parks Canada

In October 2002, the Corporation and the Ministry of Tourism and Recreation sold the H.M.C.S. Haida and its associated items and artifacts to Parks Canada for $1. As part of this transaction, the Corporation received a capital grant of $700,000. The Corporation paid $250,000 of the grant to Parks Canada as the Corporation's contribution to offset Parks Canada's costs of cutting a channel to allow for the removal of the Haida. The balance of the capital grant will be used to restore the site to its original state and for other capital improvements.

# notes to financial statements December 31, 2002

## 6. Employee Benefits

### (a) Pension Benefits

The Corporation provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are both multiemployer plans established by the Province of Ontario. These plans are accounted for as defined contributions plans as the Corporation has insufficient information to apply defined benefit accounting to these pension plans. Accordingly, the Corporation's share of contributions related to the PSPF and OPSEU pension funds for the year was $69,071 (2001 - $80,548) and is included in employee benefits in the Schedule of Administrative and Operating Expenses.

### (b) Non-Pension Benefits

Cost of post-retirement non-pension employee benefits are paid by the Management Board Secretariat and are not included in the statement of operations and equity. Legislated severance payments are accrued for upon retirement or departure of eligible employees.

## 7. Lease Commitments

Minimum lease payments for equipment rental and licence fees are $209,785 for 2003 and $27,484 for 2004.

## 8. Property Taxes

The Corporation believes, and has received a legal opinion stating that it has no legal obligation to pay grants in lieu of property taxes relating to Ontario Place. As a result, in fiscal 1996/97, the Board of Directors of the Corporation passed a resolution declaring that, commencing with the 1996 taxation year, the Corporation will not make any payment or record any charges for property taxes or grants in lieu of property taxes with respect to those portions of Ontario Place property not occupied by tenants. The Corporation advised the then Ministry of Economic Development, Trade and Tourism, and the Ministry of Municipal Affairs and Housing of the Board's decision.

In 2001 the Corporation received a refund from the City of Toronto (the City) of previously paid grants in lieu of property taxes of $812,650 for taxation years prior to 1998. This amount was taken into revenue in the 2001 fiscal year.

In 2001 the Corporation paid property taxes of $429,028 for premises occupied by concessionaires. The Corporation charged back and received $419,224 to these concessionaires for the same year. During 2002, the Corporation received a property tax refund of $466,782 relating to the property taxes previously paid for 2001. As a result, the $419,224 recovered in 2002 is included in the 2001 accounts receivable and in the 2001 and 2002 accounts payable and accrued liabilities balances.

# notes to financial statements December 31, 2002

## 8. Property Taxes (Continued)

The Corporation has not yet received a property tax bill from the City for the taxes owed by concessionaires for 2002. The Corporation has received 2002 property tax payments from concessionaires of $258,483 which is included in the 2002 accounts payable and accrued liabilities balance.

## 9. Subsequent Event

(a) On April 30, 2003 the Corporation received a $488,000 grant from the Ministry of Tourism and Recreation to help absorb the increased salary cost incurred in 2002 resulting from the Provincial Government's labour settlement. This amount will be reflected in the Corporation's 2003 financial statements.

(b) Subsequent to the Corporation's year-end, a property tax notice indicating that the corporation owed taxes totalling $6.9 million was received from the City. However, the notice did not specify for what years or what areas of Ontario Place it applied to. The Corporation is in the process of obtaining more detailed information from the City concerning this notice. This amount has not been reflected in these financial statements.

**Ontario Place**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| CHRZAN | TOM | Assistant General Manager | $100,121.58 | $205.34 |
| HUTCHESON | LESLIE | General Manager | $124,006.06 | $164.82 |

## Ontario Realty Corporation

## Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Realty Corporation have been prepared in accordance with accounting principles generally accepted in Canada and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 10, 2003.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. Management maintains a system of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function has been established that independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Board of Directors.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:

Peter Oakes
Chief Financial Officer & Treasurer
June 10, 2003

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

*Auditor's Report*

To the Ontario Realty Corporation,
Chair of the Management Board of Cabinet,
and to the Minister of Finance

I have audited the balance sheet of the Ontario Realty Corporation as at March 31, 2003 and the statements of operations and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 10, 2003

Erik Peters, FCA
Provincial Auditor

**ONTARIO REALTY CORPORATION**
**(A Crown Corporation of the Province of Ontario)**
**(in thousands of dollars)**

## BALANCE SHEET

| As at March 31 | 2003 | 2002 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 15,409 | $ 13,101 |
| Prepaid expenses | 443 | 690 |
| Accounts receivable | 13,711 | 8,593 |
| Future recoveries from Management Board Secretariat (note 2) | 2,000 | 2,500 |
| | 31,563 | 24,884 |
| **Capital assets (note 3)** | 1,967 | 756 |
| | $ 33,530 | $ 25,640 |
| **LIABILITIES AND RETAINED EARNINGS** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued liabilities | $ 9,390 | $ 5,985 |
| Provision for severance costs (note 2 ) | 2,000 | 2,500 |
| Current portion of capital lease obligations (note 4b) | 461 | 192 |
| | 11,851 | 8,677 |
| **Capital lease obligations (note 4b)** | 430 | 93 |
| **RETAINED EARNINGS** | 21,249 | 16,870 |
| | $ 33,530 | $ 25,640 |

Contingencies (note 5)
See Notes to Financial Statements

On behalf of the Board:

Chair:

Director:

**ONTARIO REALTY CORPORATION**
**(A Crown Corporation of the Province of Ontario)**
**(in thousands of dollars)**

## STATEMENT OF OPERATIONS AND RETAINED EARNINGS

| Year Ended March 31 | | 2003 | | 2002 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Management fees (note 6 ) | $ | 30,431 | $ | 25,692 |
| Expense reimbursement - in lieu of fees (note 6 ) | | 12,938 | | 12,918 |
| Direct recoverable costs (note 6 ) | | 5,508 | | 4,339 |
| Bank interest and other income | | 414 | | 399 |
| | $ | 49,291 | $ | 43,348 |
| **EXPENSES** | | | | |
| Salaries and benefits | $ | 26,773 | $ | 20,182 |
| Direct operating expenses | | 15,708 | | 10,293 |
| Depreciation | | 1,352 | | 739 |
| Administrative expenses (note 6) | | 1,042 | | 1,710 |
| Interest on capital lease obligations | | 34 | | 20 |
| Loss on disposal of capital assets | | 3 | | - |
| | $ | 44,912 | $ | 32,944 |
| **EXCESS OF REVENUES OVER EXPENSES BEFORE SEVERANCE COSTS** | | 4,379 | | 10,404 |
| Provision for severance costs (note 2) | | (900) | | 935 |
| Future recoveries from Management Board Secretariat (note 2) | | 900 | | (935) |
| **EXCESS OF REVENUES OVER EXPENSES** | $ | 4,379 | $ | 10,404 |
| **RETAINED EARNINGS, BEGINNING OF YEAR** | | 16,870 | | 6,466 |
| **RETAINED EARNINGS, END OF YEAR** | $ | 21,249 | $ | 16,870 |

See Notes to Financial Statements

**ONTARIO REALTY CORPORATION**
**(A Crown Corporation of the Province of Ontario)**
**(in thousands of dollars)**

## STATEMENT OF CASH FLOWS

| Year Ended March 31 | 2003 | 2002 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Excess of revenues over expenses | $ 4,379 | $ 10,404 |
| Adjustments for: | | |
| Depreciation | 1,352 | 739 |
| Loss on disposal of capital assets | 3 | - |
| Provision for severance costs | 900 | (935) |
| Future recoveries from Management Board Secretariat (note 2) | (900) | 935 |
| | 5,734 | 11,143 |
| **Changes in non cash working capital** | | |
| Decrease (increase) in accounts receivable | (5,118) | 2,404 |
| Decrease (increase) in prepaid expenses | 247 | (666) |
| Increase (decrease) in accounts payable and accrued liabilities | 3,405 | (2,204) |
| | 4,268 | 10,677 |
| **CASH FLOW FROM INVESTING ACTIVITIES:** | | |
| Purchase of capital assets (note 3) | (1,423) | (788) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Severance payments made during year (note 2 ) | (1,400) | (6,000) |
| Severance recoveries from Management Board Secretariat during year (note 2) | 1,400 | 6,000 |
| Repayment of capital lease obligations | (537) | (235) |
| | (537) | (235) |
| Net increase in cash | 2,308 | 9,654 |
| Cash, beginning of year | 13,101 | 3,447 |
| **Cash, end of year** | $ 15,409 | $ 13,101 |

**ONTARIO REALTY CORPORATION**
**(A Crown Corporation of the Province of Ontario)**
**(in thousands of dollars)**

## NOTES TO FINANCIAL STATEMENTS

**Year ended March 31, 2003**

## NATURE OF THE CORPORATION

The Ontario Realty Corporation (the Corporation) was established under the *Capital Investment Plan Act 1993* as a Crown Corporation of the Province of Ontario (the Province).

The Corporation provides project management, real estate and property management services to ministries and agencies of the Ontario government that directly own assets or require the Corporation's real estate services. The Corporation manages 51.9 million rentable square feet: 43.7 million owned by the Province and 8.2 million leased from the private sector at locations across the Province. The Corporation does not hold title to the managed land and buildings and therefore the land and buildings are not reflected in these financial statements. Any surplus funds shall, upon the instructions of the Minister of Finance, be paid to the Consolidated Revenue Fund of the Province of Ontario. In determining the amount payable, if any, the Minister of Finance shall ensure that the payment will not impair the Corporation's ability to pay its liabilities, to meet its obligations as they become due or to fulfill its contractual commitments.

As a Crown Corporation and service organization of the Province the Corporation is exempt from income taxes.

**ONTARIO REALTY CORPORATION**
**(A Crown Corporation of the Province of Ontario)**
**(in thousands of dollars)**

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in preparation of these financial statements are:

a) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions relating to revenues and expenses which affect the reported amounts of assets, liabilities and related disclosures as of the date of the financial statements. Actual amounts could differ from these estimates.

b) Capital Assets

Capital assets in excess of one thousand dollars with a future useful life beyond the current year are capitalized at cost. They are depreciated over their estimated useful lives on a straight-line basis as follows:

| | |
|---|---|
| Computer hardware and software | 3 years |
| Custom software | 5 years |
| Furniture and fixtures | 3 years |
| Leasehold improvements | Over term of lease |

c) Employee Benefit Plans

Until November 29, 2001 the Corporation provided pension benefits to its classified full time employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Pension Fund, which are multi- employer defined benefit pension plans.

Effective November 30, 2001 amendments to the Capital Investment Plan Act 1993 stipulated the Corporation employees were no longer part of the Ontario Public Service. Employees who had participated in the Public Service Pension Fund or the Ontario Public Service Employees' Pension Fund continued, from November 30, 2001, as participants in the Public Service Pension Fund. This plan is accounted for as a defined contribution plan as the Corporation has insufficient information to apply defined benefit plan accounting.

Regular full-time employees hired after November 29, 2001 participate in a mandatory defined contribution pension and savings plan administered by a third-party administrator. The Corporation matches employees' contributions.

The pension expense represents the Corporation's contributions to the plans during the year.

**ONTARIO REALTY CORPORATION**
**(A Crown Corporation of the Province of Ontario)**
**(in thousands of dollars)**

## NOTES TO FINANCIAL STATEMENTS

## 2. SEVERANCE COSTS

The severance provision provides for staff severance costs associated with the Corporation's re-organization and the contracting out of its facilities and land management services. These severance costs are funded by Management Board Secretariat ("MBS"). The changes in the severance provision are as follows:

| March 31 | 2003 | 2002 |
|---|---|---|
| Severance provision, beginning of year | $ 2,500 | $ 9,435 |
| Increase (decrease) of provision | 900 | (935) |
| Severance payments | (1,400) | (6,000) |
| Severance provision, end of year | $ 2,000 | $ 2,500 |

## 3. CAPITAL ASSETS

Capital assets consist of the following:

| March 31 | | | 2003 | 2002 |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value | Net Book Value |
| Computer hardware and software | $ 1,852 | $ 1,531 | $ 321 | $ 262 |
| Computer hardware and software under capital lease | 1,552 | 699 | 853 | 230 |
| Custom software | 832 | 166 | 666 | - |
| Furniture and fixtures | 50 | 17 | 33 | - |
| Leasehold improvements | 716 | 622 | 94 | 264 |
| | $ 5,002 | $ 3,035 | $ 1,967 | $ 756 |

During the year ended March 31, 2003, capital assets were acquired at an aggregate cost of $2,566 (2002 - $1,060) of which $1,143 (2002 - $272) were acquired by means of capital leases. Cash payments of $1,423 (2002 - $788) were made to purchase capital assets.

Certain capital assets are not reflected in the financial statements as they are provided at no charge to the Corporation by MBS.

**ONTARIO REALTY CORPORATION**
**(A Crown Corporation of the Province of Ontario)**
**(in thousands of dollars)**

NOTES TO FINANCIAL STATEMENTS

## 4. LEASE COMMITMENTS

a) Operating

Operating leases are expensed in accordance with terms of the lease agreements. Under the terms of operating leases for government owned space (as per the current government charging for accommodation program, where ministries and agencies pay for the space they occupy; all agreements expire March 31, 2004), vehicles and office equipment, the Corporation is committed to rental payments as follows:

| For the year ending March 31 | |
|---|---|
| 2004 | $ 1,425 |
| 2005 | 75 |
| 2006 | 36 |
| 2007 | 13 |
| 2008 | 13 |
| | $ 1,562 |

b) Capital

The Corporation leases some of its computer equipment. Leases that in effect represent the acquisition of an asset and incurrence of a liability are recorded as the purchase of an asset and the related liability is included under "Capital lease obligations".

The following is a schedule of future minimum lease payments under the capital leases expiring March 31, 2006 together with the balance of the capital lease obligations.

For the year ending March 31

| | |
|---|---|
| 2004 | $ 461 |
| 2005 | 367 |
| 2006 | 159 |
| Total minimum lease payments | 987 |
| Less: amount representing interest at 6.85% | 96 |
| Balance of obligation | 891 |
| Less: current portion | 461 |
| Long-term portion | $ 430 |

**ONTARIO REALTY CORPORATION**
**(A Crown Corporation of the Province of Ontario)**
**(in thousands of dollars)**

## NOTES TO FINANCIAL STATEMENTS

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### 5. CONTINGENCIES

The Corporation is acting as an agent of the Ontario Government. As such, the Corporation is entitled to be indemnified against all liabilities properly incurred in the course of exercising its actual authority on behalf of the Ontario Government.

### 6. RELATED PARTY TRANSACTIONS

In addition to the cash reflected on the balance sheet, the Corporation maintains several other operating bank accounts and one short-term investment account. Funds in these accounts are held "in trust", administered on behalf of MBS and relate directly to the operation of MBS owned and leased properties or services provided to other ministries or agencies of the Ontario government. As of March 31, 2003 the cash balances of the aggregated operating accounts and short-term investment were $84,496 (2002 - $23,210) and $62,700 (2002 - $119,551) respectively.

The accounts receivable include $13,626 (2002 - $7,898) from MBS and other Ministries.

Administrative expenses include: human resources, information and data processing, and financial consulting purchased from MBS.

The cost of post-retirement non-pension employee benefits was paid by MBS and is not included in the Statement of Operations and Retained Earnings.

The Corporation is economically dependant on the Province as all of the revenues received from the Province for the provision of services are under the control of the Minister/ Chair of Management Board of Cabinet.

The Corporation's prime sources of revenue are:

a) Management Fees

Market-based fees are charged for services provided for Facility and Asset Management, and Project Management related to MBS owned assets.

b) Expense Reimbursement – In Lieu of Fees

Pending the implementation of a full fee structure and the completion of the transition, corporate costs incurred by the Corporation (third party leases, negotiation services, financial services, legal, corporate relations/ communications and human resource services) are funded by MBS as an annual allocation along with the administration costs associated with the sale and acquisition of properties on behalf of the ministries and staff severance costs associated with the Corporation's transition from the Ontario Public Service and the implementation of alternative services delivery initiatives.

c) Direct Recoverable Costs

In the North and East regions the Corporation staff co-ordinate and provide direct building operating and maintenance services in support of the portfolio. These costs are directly recoverable from MBS and funded from the operating and maintenance rental payments under accommodation agreements. In addition out of pocket expenses associated with special projects undertaken on behalf of MBS were also recovered.

## 7. PENSION PLANS

The Corporation's required contributions related to the pension plans (see note 1c) for the year ended March 31, 2003 were $951 (2002 - $675) and are included in the salaries and benefits in the Statement of Operations and Retained Earnings.

## 8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

## 9. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

**ONTARIO REALTY CORPORATION**
**(A Crown Corporation of the Province of Ontario)**

## NOTES TO FINANCIAL STATEMENTS

### 10. SALARY DISCLOSURE

The Public Sector Salary Disclosure Act, 1996 requires disclosure of Ontario public sector employees paid an annual salary in excess of $100,000. For the Corporation, this disclosure for the 2002 calendar year is as follows:

| Name | Position | Salary Paid | Taxable Benefits |
|---|---|---:|---:|
| Brown, Douglas J. | Regional Vice-President (East) | $122,273 | $616 |
| Budd, Robert | VP, Regional Vice-President (Sales) | 132,499 | 342 |
| Contestabile, John | Vice-President Asset Review | 139,650 | 360 |
| Cursio, John G. P. | Manager, Project & Construction Services | 111,890 | 288 |
| Farrugia, Marylee | Executive VP & General Counsel | 201,079 | 14,716 |
| Gregory, Linda | Vice-President Controller | 158,983 | 688 |
| Hankinson, James | VP, Special Projects Marketing | 108,531 | 0 |
| Hard, William G. T. | Vice-President Financial Planning | 120,974 | 305 |
| Labelle, Hubert | Regional Vice-President (North) | 129,179 | 333 |
| Lambie, Tobin | Sr. VP, Corp. Relations & Public Affairs | 146,797 | 11,955 |
| Leroux, Peter | Executive VP, Facility Services | 224,388 | 17,059 |
| Massiah, Erwin | Regional Vice-President (GTA) | 140,896 | 365 |
| Mazzotta, Angela | Vice-President Facility Support Services | 134,980 | 347 |
| Mccreery, William | Senior Project Manager | 110,733 | 297 |
| Miele, Tony | President & Chief Executive Officer | 227,504 | 15,005 |
| Neally, Robert | Senior Project Manager | 109,145 | 294 |
| Noel, Richard | Senior Project Manager (Team Lead) | 102,516 | 275 |
| Oakes, G. Peter | Chief Financial Officer & Treasurer | 129,069 | 14,633 |
| Plamondon, Daniel | Vice-President Project Management | 135,430 | 350 |
| Robinson, Lori | Vice-President Asset Planning | 129,179 | 333 |
| Searchfield, Bradley | Exec. VP, Real Estate & Sales Div. | 224,388 | 16,614 |
| Storozuk, James | Vice-President Information Technology | 131,057 | 640 |
| Toh, Yee Seng | Project Manager Forensic Audit Review | 100,124 | 0 |
| Van Vliet, John | Regional Vice-President (Southwest) | 129,179 | 333 |
| Watkins, Reg | Senior Project Manager | 110,235 | 297 |

## ONTARIO SECURITIES COMMISSION

### MANAGEMENT'S RESPONSIBILITY

Management is responsible for the integrity of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Ontario Securities Commission is committed to full and open disclosure of its operations and maintains a system of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. The preparation of financial statements involves the use of estimates based on management's judgement on transactions which will conclude in future periods.

The Board of Directors ensures that management fulfills its responsibility for financial information and internal control. The financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The Provincial Auditor's Report, which follows, outlines the scope of the Auditor's examination and opinion.

David A. Brown, Q.C.
Chair and Chief Executive Officer

May 7, 2003

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

***Auditor's Report***

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2003 and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Erik Peters

Toronto, Ontario
May 7, 2003

Erik Peters, FCA
Provincial Auditor

## ONTARIO SECURITIES COMMISSION
**Balance Sheet**
As at March 31, 2003

| | 2003 | 2002 |
|---|---|---|
| **ASSETS** | | |
| CURRENT | | |
| Cash | $ 22,704,342 | $ 14,854,685 |
| Accounts receivable | 2,139,605 | 1,004,234 |
| Prepaid expenses | 401,421 | 422,252 |
| | 25,245,368 | 16,281,171 |
| DESIGNATED SETTLEMENTS (Note 8) | 474 | 130,879 |
| RESERVE FUND ASSETS (Note 3) | 32,000,000 | 32,000,000 |
| CAPITAL ASSETS (Note 5) | 7,039,570 | 7,876,910 |
| | $ 64,285,412 | $ 56,288,960 |
| **LIABILITIES** | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | $ 9,854,764 | $ 8,255,930 |
| Due to Province of Ontario (Note 10(a)) | 14,480,975 | 5,897,948 |
| | 24,335,739 | 14,153,878 |
| NON-CURRENT | | |
| Other long term liabilities (Note 7(b)) | 813,131 | 530,795 |
| | 25,148,870 | 14,684,673 |
| DESIGNATED SETTLEMENTS (Note 8) | 474 | 130,879 |
| **SURPLUS** | | |
| OPERATING | | |
| General | 7,037,824 | 9,375,164 |
| Reserve (Note 3) | 32,000,000 | 32,000,000 |
| | 39,037,824 | 41,375,164 |
| CONTRIBUTED | 98,244 | 98,244 |
| | 39,136,068 | 41,473,408 |
| | $ 64,285,412 | $ 56,288,960 |

Investor Education Fund (Note 9)
Committments and Contingencies (Note 4)
See accompanying notes to Financial Statements.

ON BEHALF OF THE COMMISSION

David A. Brown, Q.C.
Chair

Robert W. Davis, FCA
Commissioner

## ONTARIO SECURITIES COMMISSION
### Statement of Operations and Operating Surplus
For the year ended March 31, 2003

| | 2003 | 2002 |
|---|---|---|
| **REVENUE** | | |
| Fees | | |
| Prospectus filings | $ 35,853,829 | $ 43,539,952 |
| Registration | 26,724,635 | 27,617,369 |
| Disclosure filings | 5,105,622 | 6,099,801 |
| Applications for exemptive relief | 1,311,277 | 971,482 |
| Investment income | 1,375,337 | 1,551,722 |
| Miscellaneous | 102,208 | 113,976 |
| | 70,472,908 | 79,894,302 |
| **EXPENSES** | | |
| Salaries and benefits (Note 7) | 38,278,354 | 34,032,191 |
| Administrative | 6,617,364 | 4,873,075 |
| Occupancy (Note 6) | 3,726,817 | 3,185,354 |
| Professional services (Note 2(b)) | 3,122,824 | 3,345,009 |
| Amortization | 3,069,103 | 3,277,968 |
| Other | 1,059,811 | 1,035,442 |
| | 55,874,273 | 49,749,039 |
| **EXCESS OF REVENUE OVER EXPENSES** | 14,598,635 | 30,145,263 |
| **OPERATING SURPLUS, BEGINNING OF PERIOD** | 41,375,164 | 31,260,166 |
| **LESS:** Distributions to Province of Ontario (Note 10(a)) | 16,935,975 | 20,030,265 |
| **OPERATING SURPLUS, END OF PERIOD** | $ 39,037,824 | $ 41,375,164 |
| **Represented by:** | | |
| General | $ 7,037,824 | $ 9,375,164 |
| Reserve | 32,000,000 | 32,000,000 |
| | $ 39,037,824 | $ 41,375,164 |

See accompanying notes to Financial Statements.

## ONTARIO SECURITIES COMMISSION

**Statement of Cash Flows**

For the year ended March 31, 2003

| | 2003 | 2002 |
|---|---|---|
| **NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES** | | |
| Cash flows from operating activities | | |
| Excess of revenue over expenses | $ 14,598,635 | $ 30,145,263 |
| Adjustments for amortization | 3,069,103 | 3,277,968 |
| | 17,667,738 | 33,423,231 |
| Changes in non-cash working capital: | | |
| Accounts receivable | (1,135,371) | 523,864 |
| Prepaid expenses | 20,831 | (128,471) |
| Due to Province of Ontario | 8,583,027 | (908,328) |
| Accounts payable and accrued liabilities | 1,598,834 | (2,537,204) |
| Other long term liabilities | 282,336 | 294,541 |
| | 9,349,657 | (2,755,598) |
| | 27,017,395 | 30,667,633 |
| Cash flows from financing activities | | |
| Distributions to Province of Ontario | (16,935,975) | (20,030,265) |
| Obligation under capital leases | - | (28,629) |
| | (16,935,975) | (20,058,894) |
| Cash flows from investing activities | | |
| Reserve fund assets | - | (12,000,000) |
| Purchase of capital assets | (2,231,763) | (1,394,027) |
| | (2,231,763) | (13,394,027) |
| **NET INCREASE (DECREASE) IN CASH POSITION** | 7,849,657 | (2,785,288) |
| **CASH POSITION, BEGINNING OF PERIOD** | 14,854,685 | 17,639,973 |
| **CASH POSITION, END OF PERIOD** | $ 22,704,342 | $ 14,854,685 |

See accompanying notes to Financial Statements.

**ONTARIO SECURITIES COMMISSION**
Notes to the Financial Statements
March 31, 2003

## 1. NATURE OF THE CORPORATION

Effective November 1, 1997, amendments to the *Securities Act* continued the Ontario Securities Commission (the "Commission") as a corporation without share capital. The Commission functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

### a) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition. The estimated useful lives of the assets are as follows:

| | |
|---|---|
| Office furniture and equipment | 5 to 10 years |
| Computer hardware and related applications | 2 years |
| Computer equipment under capital leases | 2 years |
| Leasehold improvements | over term of lease |

### b) Revenue

Fees are recognized when earned which is normally upon receipt. The amount of revenue to be realized from prospectus filing fees is uncertain. Fees are paid based on estimated prospectus proceeds and refunds are issued, as required, based on actual proceeds in Ontario. As a result, revenue from prospectus filings is recognized net of a provision for expected refunds. At the beginning of each fiscal year the Commission establishes a percentage for the provision for expected refunds based on the experience of the previous three years. The provision is adjusted at year end. Disclosure filing fees are recognized upon receipt of filing.

Recovery of costs of investigations is netted against professional services upon date of decision unless management determines there is no reasonable assurance as to ultimate collection, in which case recovery is recognized when cash is received.

c) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

d) Employee Benefit Plan

The Commission provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multiemployer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the Commission has insufficient information to apply defined benefit plan accounting to this pension plan.

The Commission also maintains supplementary unfunded pension plans for certain full-time members. The Commission accrues its obligations and the related costs under these supplemental unfunded pension plans. The transitional obligation is being amortized over the average remaining service period of active members expected to receive benefits under these plans. For purposes of valuation, the actuarial liability and the current service cost is determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

Post-retirement non-pension benefits are not included in the Statement of Operations and Operating Surplus as described in Note 10(c).

## 3. RESERVE

As part of the approval of its self-funded status, the Commission was allowed to establish a $20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures. The accumulated funds, at March 31, 2003, have been invested in short-term and mid-term instruments with the Ontario Financing Authority.

The Commission received approval from the Ministry of Finance to retain $12.0 million, which may only be used toward implementation costs of the proposed merger with the Financial Services Commission of Ontario as described in Note 12, and are subject to appropriate terms and conditions agreed with the Ministry of Finance, including:

i) The monies will be paid to the Consolidated Revenue Fund, in part or in full, if not required to fund the costs of the merger; and
ii) While retained by the Commission, the monies will be invested with the Ontario Financing Authority.

Investments are carried at cost, which approximates market value. The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments are credited to the operations of the Commission.

## ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements
March 31, 2003

### 4. COMMITMENTS AND CONTINGENCIES

a) The Commission has guaranteed 61% of a total $12.0 million line of credit from a Canadian bank for the Mutual Fund Dealers Association of Canada (MFDA). The guarantee was signed March 19, 1999 and can be terminated by the Commission at any time. The Alberta Securities Commission and the British Columbia Securities Commission have also guaranteed a specified percentage of the total indebtedness. The MFDA has signed an agreement which requires it to use the funds only in accordance with the budget and business plan as approved by each of the Commissions, and also commits the MFDA to repay its loan by the end of the seventh year. As at March 31, 2003, the MFDA has drawn $2,963,000 (2002 - $8,913,000) on this line of credit. Interest is charged at prime plus 0.50% per annum.

b) The Commission is involved in various legal actions arising out of the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.

c) The National Registration Database (NRD) was launched on March 31, 2003. The Commission, together with the Alberta Securities Commission, the British Columbia Securities Commission, and the Investment Dealers Association is contingently liable for a $4.25 million assured payment in respect of the development of NRD. The Commission's share of this contigency is $1,962,650. It is expected that the assured payment will be funded by users of NRD and no provision has been made in the financial statements for any potential cost to the Commission.

### 5. CAPITAL ASSETS

| | Cost | Accumulated Amortization | 2003 Net Book Value | 2002 Net Book Value |
|---|---|---|---|---|
| Office furniture | $2,813,494 | $ 1,309,818 | $ 1,503,676 | $ 1,702,388 |
| Office equipment | 278,858 | 127,832 | 151,026 | 203,070 |
| Computer hardware and related applications | 8,378,742 | 6,140,304 | 2,238,438 | 2,351,840 |
| Computer equipment under capital leases | 831,725 | 831,725 | - | - |
| Leasehold improvements | 5,782,313 | 2,635,883 | 3,146,430 | 3,619,612 |
| | $ 18,085,132 | $ 11,045,562 | $ 7,039,570 | $ 7,876,910 |

**ONTARIO SECURITIES COMMISSION**
Notes to the Financial Statements
March 31, 2003

## 6. LEASE OBLIGATIONS

### Operating

The Commission is committed to operating lease payments for the next 5 years as follows:

| | |
|---|---|
| 2004 | $3,748,914 |
| 2005 | $3,644,601 |
| 2006 | $1,573,737 |
| 2007 | $ 82,504 |
| 2008 | $ 51,205 |

## 7. PENSION PLANS

a) The Commission's contribution to the Public Service Pension Plan for the year ended March 31, 2003 was $1,346,895 (2002 - $900,885) and is included in salaries and benefits.

b) The unfunded supplemental pension plans had an accrued benefit obligation of $544,565 at March 31, 2003 (2002 - $606,181). The Commission's related expense for the year was $282,336 (2002 - $294,541) and is included in salaries and benefits. No benefits were paid during the year (2002 - $0). The average remaining service period of the active employees covered by these plans ranges from .92 to 3.85 years (2001 - 1.92 to 4.85 years). The significant actuarial assumptions adopted at March 31, 2003 include a discount rate of 6.5% (2002 – 6.75%) and a rate of compensation increase of 0.0% (2002 – 0.0%).

**ONTARIO SECURITIES COMMISSION**
Notes to the Financial Statements
March 31, 2003

## 8. DESIGNATED SETTLEMENTS

The Commission has reached a number of settlement agreements arising from enforcement proceedings where monies from these settlements are received or receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine. The accumulated funds are held in a segregated bank account. As at March 31, 2003, the accumulated balance is determined as follows:

| | 2003 | 2002 |
|---|---|---|
| Opening balance | $ 130,879 | $1,544,975 |
| Settlements | 150,000 | 4,021,991 |
| Interest | 3,474 | 40,888 |
| Payments | | |
| Investor Education Fund – prior period | (130,879) | (1,544,975) |
| Investor Education Fund – current period | (153,000) | (3,932,000) |
| Investor Education Fund – Total | (283,879) | (5,476,975) |
| Closing Balance | $474 | $130,879 |
| Represented by: | | |
| Cash | $101 | $498 |
| Receivables | 373 | 130,381 |
| | $474 | $130,879 |

The balance of $474 (2002 - $130,879) is due to the Investor Education Fund.

## 9. INVESTOR EDUCATION FUND

a) The Investor Education Fund (the Fund) was incorporated by letters patent of Ontario dated August 3, 2000 as a non-profit corporation without share capital. The Fund is independently managed by its Board of Directors to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor education. The Commission oversees the Fund as the sole voting member. The Fund is exempt from income taxes.

The Fund has not been consolidated in the Commission's financial statements because the Commission will neither obtain future economic benefits from the Fund, nor incur related risks. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2003 and for the year ended March 31, 2003 are as follows:

**ONTARIO SECURITIES COMMISSION**
Notes to the Financial Statements
March 31, 2003

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### INVESTOR EDUCATION FUND

| | 2003 | 2002 |
|---|---|---|
| **Financial Position** | | |
| Total assets | $7,434,633 | $8,365,439 |
| Total liabilities | $166,285 | $192,120 |
| Total net assets | 7,268,348 | 8,173,319 |
| | $7,434,633 | $8,365,439 |
| **Results of Operations** | | |
| Total contributions and interest income | $369,047 | $4,188,023 |
| Total expenses | 1,274,018 | 471,423 |
| Excess of revenue over expenses | ($904,971) | $3,716,600 |
| **Cash flows** | | |
| Cash flows from operating activities | | |
| Cash receipts from the Ontario Securities Commission | $283,878 | $5,476,975 |
| Cash receipts from third parties | 8,000 | - |
| Investment income received | 196,439 | 118,371 |
| Cash paid for initiatives and expenses | (1,299,852) | (368,341) |
| Net increase in cash position | (811,535) | 5,227,005 |
| Cash position, beginning of period | 8,227,005 | 3,000,000 |
| Cash position, end of period | $7,415,470 | $8,227,005 |

b) In the normal course of operations, the Commission entered into transactions with the Fund as follows:

i) The Board of the Commission authorized a transfer of $153,474 (2002 - $4,062,879) of the Commission's Designated Settlements to the Fund. As at March 31, 2003, $474 (2002 - $130,879) remained to be paid.

ii) The Commission has a Management Services agreement with the Fund for the provision of administrative and management services, at cost.

**ONTARIO SECURITIES COMMISSION**
Notes to the Financial Statements
March 31, 2003

For the period ended March 31, 2003, the Commission incurred costs totalling $310,923 (2002 - $181,776) for services related to the Fund. The total cost of these services has been charged back to the Fund and, of this amount, $116,288 is owing to the Commission as of March 31, 2003 (2002 - $141,257).

## 10. TRANSACTIONS WITH PROVINCE OF ONTARIO

In the course of normal operations, the Commission entered into transactions with the Province of Ontario as follows:

a) The *Securities Act* states that when ordered to do so by the Minister of Finance, the Commission shall remit to the Province of Ontario such surplus funds as determined by the Minister. In accordance with this provision, the Minister has requested the Commission to remit fee revenues which are in excess of its operating requirements. The Commission includes fixed asset funding in its operating requirements.

b) The Commission has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.

c) Costs of post-retirement non-pension employee benefits have been paid by the Management Board Secretariat and are not included in the Statement of Operations and Operating Surplus.

## 11. STREAMLINING OF FEES UNDER THE SECURITIES ACT

Commencing on March 31, 2003, the Commission introduced a new fee model under the provisions of the Securities Act. The new fee regime is designed to accomplish three primary objectives; to reduce the overall fees charged to market participants from what existed previously in Ontario; to create a clear and streamlined fee structure; and adopt fees that accurately reflect the Commission's costs of operations.

The fee regime is based on the concept of "participation fees" and "activity fees". Participation fees represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees represent the direct cost of Commission staff resources expended in undertaking certain activities requested of staff by market participants.

**ONTARIO SECURITIES COMMISSION**
Notes to the Financial Statements
March 31, 2003

## 12. ESTABLISHING A SINGLE FINANCIAL SERVICES REGULATOR

In the May 2, 2000 Budget, the Minister of Finance announced that the Ontario Securities Commission and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors.

Legislation is required in order to create the proposed new organization and specify its regulatory responsibilities and powers. Draft legislation supporting this initiative was released for comment by the Ministry of Finance in April 2001.

## RECORD OF EMPLOYEES' 2002 SALARIES AND BENEFITS

Please refer to the PSSD Guide before filling out this form

| Cal Year | Sector | Employer | Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|---|---|---|
| 2002 | Agencies | Ontario Securities Commission | Alexopoulos | Tula | Special Advisor to the Chair | $127,818.15 | $197.61 |
| 2002 | Agencies | Ontario Securities Commission | Antoniou | Noulla | Senior Accountant | $105,235.61 | $243.67 |
| 2002 | Agencies | Ontario Securities Commission | Beck | Joan | Senior Legal Counsel | $150,845.52 | $458.74 |
| 2002 | Agencies | Ontario Securities Commission | Bertoia | Julie | Senior Accountant | $140,996.71 | $229.71 |
| 2002 | Agencies | Ontario Securities Commission | Blumberger | Erez | Legal Counsel | $136,520.88 | $562.16 |
| 2002 | Agencies | Ontario Securities Commission | Boardman | Sally | Manager, Human Resources | $108,776.06 | $242.65 |
| 2002 | Agencies | Ontario Securities Commission | Bridge | Marrianne | Manager, Compliance | $152,366.60 | $311.70 |
| 2002 | Agencies | Ontario Securities Commission | Britton | Matthew | Senior Litigation Counsel | $144,984.41 | $253.79 |
| 2002 | Agencies | Ontario Securities Commission | Brown | Michael | Legal Counsel | $111,646.64 | $175.87 |
| 2002 | Agencies | Ontario Securities Commission | Brown | David | Chair | $552,000.10 | $9,835.12 |
| 2002 | Agencies | Ontario Securities Commission | Bureaud | Jean-Paul | Legal Counsel | $130,040.62 | $231.35 |
| 2002 | Agencies | Ontario Securities Commission | Butler | Brian | Manager, Investigations | $179,210.94 | $664.08 |
| 2002 | Agencies | Ontario Securities Commission | Byers | Christopher | Legal Counsel | $106,338.67 | $179.14 |
| 2002 | Agencies | Ontario Securities Commission | Byrnes | Robert | Deputy Director, Information Technology | $166,918.49 | $1,411.63 |
| 2002 | Agencies | Ontario Securities Commission | Carchrae | John | Chief Accountant | $207,060.83 | $298.80 |
| 2002 | Agencies | Ontario Securities Commission | Casiero | Vincent | Investigation Counsel | $120,692.05 | $204.62 |
| 2002 | Agencies | Ontario Securities Commission | Chaukos | Pat | Senior Accountant/Legal Counsel | $136,745.30 | $611.94 |
| 2002 | Agencies | Ontario Securities Commission | Chisholm | Yvonne | Litigation Counsel | $134,149.76 | $288.21 |
| 2002 | Agencies | Ontario Securities Commission | Cho | Peter | Senior Forensic Accountant | $139,917.50 | $684.70 |
| 2002 | Agencies | Ontario Securities Commission | Chung | YuMee | Legal Counsel | $105,101.42 | $170.76 |
| 2002 | Agencies | Ontario Securities Commission | Clarkin | Brian | Senior Forensic Accountant | $146,414.36 | $230.16 |
| 2002 | Agencies | Ontario Securities Commission | Collins | Stephanie | Forensic Accountant | $103,301.76 | $167.49 |
| 2002 | Agencies | Ontario Securities Commission | Corbett | Hugh | Litigation Counsel | $117,404.64 | $327.32 |
| 2002 | Agencies | Ontario Securities Commission | Cottrell | John | Senior Forensic Accountant | $114,605.96 | $643.74 |
| 2002 | Agencies | Ontario Securities Commission | Cowdery | Rebecca | Manager, Investment Funds Regulatory Reform | $187,999.18 | $294.12 |
| 2002 | Agencies | Ontario Securities Commission | Daniels | Kathryn | Litigation Counsel | $145,186.00 | $397.52 |
| 2002 | Agencies | Ontario Securities Commission | Dasil | Merilyn | Senior Legal Counsel | $142,141.64 | $218.67 |
| 2002 | Agencies | Ontario Securities Commission | Davis | Robert | Commissioner | $105,800.00 | $0.00 |
| 2002 | Agencies | Ontario Securities Commission | Day | Robert | Manager, Business Planning & Reporting | $132,504.95 | $212.90 |
| 2002 | Agencies | Ontario Securities Commission | De Lint | Dirk | Legal Counsel | $133,875.94 | $286.06 |
| 2002 | Agencies | Ontario Securities Commission | De Verteuil | Michael | Senior Forensic Accountant | $133,202.15 | $224.53 |
| 2002 | Agencies | Ontario Securities Commission | Dempsey | Paul | Manager, Investment Funds | $165,618.62 | $273.31 |
| 2002 | Agencies | Ontario Securities Commission | Di Lieto | Rossana | Senior Legal Counsel | $131,937.65 | $233.87 |
| 2002 | Agencies | Ontario Securities Commission | Dublin | Julia | Senior Legal Counsel | $165,417.76 | $679.82 |
| 2002 | Agencies | Ontario Securities Commission | Dundas | Linda | Senior Derivatives Specialist | $131,248.02 | $611.52 |
| 2002 | Agencies | Ontario Securities Commission | Evans | Katharine | Legal Counsel | $102,939.69 | $376.05 |
| 2002 | Agencies | Ontario Securities Commission | Fallone | Joanna | Manager, Case Assessment | $162,160.36 | $272.79 |
| 2002 | Agencies | Ontario Securities Commission | Fung | Carlin | Senior Accountant | $104,368.35 | $175.89 |
| 2002 | Agencies | Ontario Securities Commission | Fydell | Barbara | Legal Counsel | $115,031.69 | $190.75 |
| 2002 | Agencies | Ontario Securities Commission | Gerhart | Marsha | Senior Legal Counsel | $152,178.13 | $558.82 |
| 2002 | Agencies | Ontario Securities Commission | Gilkes | David | Manager, Registrant Regulation | $120,820.97 | $221.30 |
| 2002 | Agencies | Ontario Securities Commission | Goldberg | Rhonda | Legal Counsel | $108,747.56 | $210.64 |
| 2002 | Agencies | Ontario Securities Commission | Gorman | Kelly | Senior Accountant | $109,222.98 | $204.31 |
| 2002 | Agencies | Ontario Securities Commission | Greenglass | Susan | Senior Legal Counsel | $167,219.93 | $258.58 |
| 2002 | Agencies | Ontario Securities Commission | Gunn | George | Manager, Surveillance | $135,928.65 | $1,304.89 |
| 2002 | Agencies | Ontario Securities Commission | Hayward | Paul | Legal Counsel | $105,316.75 | $178.24 |
| 2002 | Agencies | Ontario Securities Commission | Hubley | Michael | Assistant Manager, Investigations | $121,769.32 | $1,086.22 |
| 2002 | Agencies | Ontario Securities Commission | Hughes | John | Manager, Continuous Disclosure | $161,563.35 | $263.55 |
| 2002 | Agencies | Ontario Securities Commission | Jepson | Christopher | Legal Counsel | $118,391.30 | $227.58 |
| 2002 | Agencies | Ontario Securities Commission | Jiwani | Nurez | Director, Regulatory Coordination | $133,251.49 | $0.00 |
| 2002 | Agencies | Ontario Securities Commission | Kanji | Naizam | Legal Counsel | $112,380.32 | $185.62 |
| 2002 | Agencies | Ontario Securities Commission | Kennedy | Melissa | Manager, Litigation | $165,057.68 | $359.33 |
| 2002 | Agencies | Ontario Securities Commission | Kohl | Robert | Senior Legal Counsel | $162,242.94 | $265.85 |
| 2002 | Agencies | Ontario Securities Commission | Koor | Elle | Manager, NRD Project | $158,336.33 | $240.34 |
| 2002 | Agencies | Ontario Securities Commission | Leung | Antoinette | Senior Accountant | $130,399.46 | $208.33 |
| 2002 | Agencies | Ontario Securities Commission | Lo | Yvonne | Senior Forensic Accountant | $116,621.24 | $193.56 |
| 2002 | Agencies | Ontario Securities Commission | MacCready | Charles | Senior Legal Counsel | $125,302.37 | $277.42 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2002 | Agencies | Ontario Securities Commission | Macfarlane | Charles | Executive Director | $383,305.12 | $7,791.56 |
| 2002 | Agencies | Ontario Securities Commission | Mainville | Chantal | Legal Counsel | $112,501.82 | $1,158.23 |
| 2002 | Agencies | Ontario Securities Commission | Manarin | Karen | Litigation Counsel | $130,277.43 | $234.45 |
| 2002 | Agencies | Ontario Securities Commission | Martin Gorelle | Krista | Senior Legal Counsel | $155,757.79 | $255.24 |
| 2002 | Agencies | Ontario Securities Commission | Martin Sidey | Donna | Legal Counsel | $160,937.52 | $309.66 |
| 2002 | Agencies | Ontario Securities Commission | McCallum | Susan | Senior Legal Counsel | $126,790.12 | $213.39 |
| 2002 | Agencies | Ontario Securities Commission | McCombe | Deborah | Geologist | $130,577.19 | $557.91 |
| 2002 | Agencies | Ontario Securities Commission | McCurdy | David | Trading Systems Specialist | $120,096.09 | $229.26 |
| 2002 | Agencies | Ontario Securities Commission | McGregor | Mark | Manager, Technology Services | $107,649.71 | $706.86 |
| 2002 | Agencies | Ontario Securities Commission | McInnis | Cameron | Senior Accountant | $124,282.08 | $568.66 |
| 2002 | Agencies | Ontario Securities Commission | McKall | Darren | Legal Counsel | $113,667.27 | $186.99 |
| 2002 | Agencies | Ontario Securities Commission | McManus | Mark | Manager, Inquiries & Contact Centre | $108,241.67 | $1,477.28 |
| 2002 | Agencies | Ontario Securities Commission | Moore | Terry | Legal Counsel | $134,315.14 | $431.54 |
| 2002 | Agencies | Ontario Securities Commission | Moore | Paul | Vice Chair | $376,549.82 | $7,803.18 |
| 2002 | Agencies | Ontario Securities Commission | Mulima | Mark | Legal Counsel | $101,914.97 | $0.00 |
| 2002 | Agencies | Ontario Securities Commission | Nania | Viraf | Senior Accountant | $113,802.66 | $263.48 |
| 2002 | Agencies | Ontario Securities Commission | Naster | Jay | Special Counsel | $261,507.24 | $282.60 |
| 2002 | Agencies | Ontario Securities Commission | Oseni | Sarah | Legal Counsel | $125,651.49 | $288.16 |
| 2002 | Agencies | Ontario Securities Commission | Pare | Maxime | Senior Legal Counsel | $154,378.74 | $685.68 |
| 2002 | Agencies | Ontario Securities Commission | Paul | Margo | Manager, Finance Team 1 | $183,607.30 | $287.94 |
| 2002 | Agencies | Ontario Securities Commission | Pavalow | Randee | Director, Capital Markets | $200,637.46 | $382.39 |
| 2002 | Agencies | Ontario Securities Commission | Petlock | Cindy | Manager, Market Regulation | $150,469.26 | $245.90 |
| 2002 | Agencies | Ontario Securities Commission | Petroff | Thomas | Senior Market Analyst | $105,259.20 | $180.01 |
| 2002 | Agencies | Ontario Securities Commission | Pilipavicius | Rima | Senior Forensic Accountant | $126,882.32 | $222.71 |
| 2002 | Agencies | Ontario Securities Commission | Pilkey | Scott | Senior Investigation Counsel | $159,058.12 | $519.70 |
| 2002 | Agencies | Ontario Securities Commission | Powley | Randall | Chief Economist | $155,320.86 | $257.10 |
| 2002 | Agencies | Ontario Securities Commission | Ramsay | Anne | Senior Accountant | $141,068.60 | $218.10 |
| 2002 | Agencies | Ontario Securities Commission | Sanjoto | Winnie | Legal Counsel | $101,306.76 | $159.17 |
| 2002 | Agencies | Ontario Securities Commission | Sankar | Levi | Investigation Counsel | $128,710.63 | $226.02 |
| 2002 | Agencies | Ontario Securities Commission | Shay | Ralph | Director, Take Over Bids | $175,971.76 | $290.92 |
| 2002 | Agencies | Ontario Securities Commission | Smith | Ian | Litigation Counsel | $165,932.16 | $260.35 |
| 2002 | Agencies | Ontario Securities Commission | Soden | Kathryn | Director, Corporate Finance | $135,047.69 | $486.80 |
| 2002 | Agencies | Ontario Securities Commission | Spencer | Mary Ann | Director, Corporate Services | $198,442.98 | $312.26 |
| 2002 | Agencies | Ontario Securities Commission | Stern | Tracey | Senior Legal Counsel | $142,329.83 | $225.56 |
| 2002 | Agencies | Ontario Securities Commission | Stevenson | John | Secretary to the Commission | $167,365.83 | $275.16 |
| 2002 | Agencies | Ontario Securities Commission | Stow | Nancy | Manager, IEF Research & Development Support Services | $107,884.43 | $182.82 |
| 2002 | Agencies | Ontario Securities Commission | Superina | Johanna | Senior Litigation Counsel | $171,596.61 | $265.91 |
| 2002 | Agencies | Ontario Securities Commission | Switzer | Frank | Director, Communications | $157,823.56 | $291.67 |
| 2002 | Agencies | Ontario Securities Commission | Tedesco | Felicia | Assistant Manager, Compliance | $144,356.21 | $653.45 |
| 2002 | Agencies | Ontario Securities Commission | Tillie | Marcel | Senior Accountant | $141,477.65 | $680.33 |
| 2002 | Agencies | Ontario Securities Commission | Toledano | Lori | Forensic Accountant | $101,252.71 | $364.70 |
| 2002 | Agencies | Ontario Securities Commission | Too | Byron | Manager, Application Services | $112,236.24 | $228.56 |
| 2002 | Agencies | Ontario Securities Commission | Tsatsos | Irene | Senior Accountant | $121,424.25 | $201.40 |
| 2002 | Agencies | Ontario Securities Commission | Vranic | Iva | Manager, Finance Team 2 | $171,498.98 | $279.31 |
| 2002 | Agencies | Ontario Securities Commission | Watson | Michael | Director, Enforcement | $229,413.17 | $380.22 |
| 2002 | Agencies | Ontario Securities Commission | Welsh | Doug | Legal Counsel | $110,764.92 | $188.37 |
| 2002 | Agencies | Ontario Securities Commission | Wetston | Howard | Vice Chair | $399,549.82 | $7,803.18 |
| 2002 | Agencies | Ontario Securities Commission | Whiler | Rick | Senior Accountant | $139,551.40 | $235.74 |
| 2002 | Agencies | Ontario Securities Commission | Wolburgh Jenah | Susan | General Counsel & Director International Affairs | $214,813.60 | $340.58 |

I certify that the information provided on this record is correct in accordance with the *Public Sector Salary Disclosure Act, 1996*

This record has been approved by:

David Brown

Chair

Position Title

(416) 593-8203

Phone Number

March 12, 2003

Date

Prepared under the *Public Sector Salary Disclosure Act, 1996*

## Ontario Trillium Foundation

## Management's Responsibility For Financial Information

The accompanying financial statements of the Ontario Trillium Foundation are the responsibility of management and have been prepared in accordance with generally accepted accounting principles.

Management maintains a system of internal controls designed to provide reasonable assurance that financial information is accurate and that assets are protected.

The Board of Directors ensures that management fulfils its responsibilities for financial reporting and internal control. The Finance Committee and the Board of Directors meet regularly to oversee the financial activities of the foundation, and at least annually to review the audited financial statements and the external auditors' report thereon.

The financial statements have been examined by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report outlines the scope of the auditors' examination and opinion.

APashley

L. Robin Cardozo, FCA
Chief Executive Officer

Anne Pashley
Vice-President,
Finance and Administration

# AUDITORS' REPORT

To the Board of Directors of the
**Ontario Trillium Foundation**

We have audited the balance sheet of the **Ontario Trillium Foundation** as at March 31, 2003 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Ernst & Young LLP

Toronto, Canada,
April 28, 2003.

Chartered Accountants

## Ontario Trillium Foundation

# BALANCE SHEET

As at March 31

| | 2003<br>$ | 2002<br>$ |
|---|---|---|
| **ASSETS** | | |
| Cash | **1,142,375** | 1,045,985 |
| Accrued interest and other | **1,496,121** | 1,189,064 |
| Investments *[note 3]* | **121,471,156** | 128,669,625 |
| Capital assets, net *[note 4]* | **959,830** | 1,148,674 |
| | **125,069,482** | 132,053,348 |
| **LIABILITIES AND NET ASSETS** | | |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **939,479** | 959,845 |
| Grants payable *[note 6[b]]* | **111,741,117** | 116,298,970 |
| Deferred contributions *[note 6[a]]* | **3,383,000** | 5,642,708 |
| **Total liabilities** | **116,063,596** | 122,901,523 |
| **Net assets** *[note 7]* | | |
| Invested in capital assets | **959,830** | 1,148,674 |
| Unrestricted net assets | **8,046,056** | 8,003,151 |
| **Total net assets** | **9,005,886** | 9,151,825 |
| | **125,069,482** | 132,053,348 |

*See accompanying notes*

On behalf of the Board:

Robert Power
Robert G. Power
Chair

Paul Ayotte
Paul Ayotte
Treasurer

**Ontario Trillium Foundation**

## STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended March 31

| | 2003 $ | 2002 $ |
|---|---|---|
| **REVENUE** | | |
| Ontario government funding *[note 5]* | **102,259,708** | 107,248,863 |
| Grants rescinded or recovered | **1,743,045** | 1,225,047 |
| Interest income | **4,734,431** | 7,842,051 |
| | **108,737,184** | 116,315,961 |
| **EXPENSES** | | |
| Program activities | | |
| Grants pledged *[note 6]* | **98,519,400** | 106,057,700 |
| Grantmaking expenses | **8,681,752** | 8,488,971 |
| Non-grant contributions to the community *[note 8]* | **236,906** | 199,848 |
| | **107,438,058** | 114,746,519 |
| Support services | **978,628** | 949,672 |
| Amortization | **466,437** | 509,467 |
| | **108,883,123** | 116,205,658 |
| **Excess (deficiency) of revenue over expenses for the year** | **(145,939)** | 110,303 |
| Net assets, beginning of year | **9,151,825** | 9,041,522 |
| **Net assets, end of year** | **9,005,886** | 9,151,825 |

*See accompanying notes*

## Ontario Trillium Foundation

# STATEMENT OF CASH FLOWS

Year ended March 31

| | 2003<br>$ | 2002<br>$ |
|---|---|---|
| **GRANTING AND OPERATING ACTIVITIES** | | |
| Excess (deficiency) of revenue over expenses for the year | **(145,939)** | 110,303 |
| Add non-cash item | | |
| Amortization | **466,437** | 509,467 |
| Net changes in non-cash balances related to operations | | |
| Accrued interest and other | **(307,057)** | 2,589,693 |
| Accounts payable and accrued liabilities | **(20,366)** | 32,096 |
| Grants payable | **(4,557,853)** | 15,478,600 |
| Deferred contributions | **(2,259,708)** | (7,195,812) |
| **Cash provided by (used in) granting and operating activities** | **(6,824,486)** | 11,524,347 |
| **INVESTING ACTIVITIES** | | |
| Net decrease (increase) in investments | **7,198,469** | (11,224,436) |
| Purchase of capital assets | **(277,593)** | (317,228) |
| **Cash provided by (used in) investing activities** | **6,920,876** | (11,541,664) |
| **Net increase (decrease) in cash during the year** | **96,390** | (17,317) |
| Cash, beginning of year | **1,045,985** | 1,063,302 |
| **Cash, end of year** | **1,142,375** | 1,045,985 |

*See accompanying notes*

**Ontario Trillium Foundation**

# NOTES TO FINANCIAL STATEMENTS

March 31, 2003

## 1. PURPOSE

The Ontario Trillium Foundation ["OTF"], an agency of the Ministry of Culture [the "Ministry"], is financially supported by the government of Ontario. OTF began operations as an arm's length agency of the Ontario government on August 23, 1982 and was incorporated without share capital under the laws of Ontario under letters patent dated November 17, 1982. OTF's purpose is to work with others to make strategic investments to build healthy, caring and economically strong communities in Ontario.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

### Revenue recognition

OTF follows the deferral method of accounting for contributions, which include government funding. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions externally restricted are deferred and recognized as revenue in the year in which the related expenses are incurred.

### Investments

Short-term investments, treasury bills, and bankers' acceptances are recorded at cost. Bonds are recorded at amortized cost.

### Grants

Grants are recorded as expenses in the year that the Board of Directors approves the grant.

### Expenses

Departmental expenses are allocated between grantmaking and support services based on the percentage of each department's activities devoted to these activities.

**Ontario Trillium Foundation**

# NOTES TO FINANCIAL STATEMENTS

March 31, 2003

## Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the following periods:

| | |
|---|---|
| Furniture and fixtures | 5 years |
| Computer hardware | 3 years |
| Computer software | 1 year |
| Leasehold improvements | over term of the lease |

## 3. INVESTMENTS

Investments consist of the following:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Cost $** | **Market value $** | **Cost $** | **Market value $** |
| Treasury bills | **112,579,047** | **112,579,047** | 93,339,095 | 93,339,095 |
| Bankers' acceptances | **8,892,109** | **8,892,109** | 10,855,141 | 10,855,141 |
| Ontario Hydro bond, 5.97% due April 16, 2002 | — | — | 5,072,053 | 5,012,350 |
| Ontario Hydro bond, 4.60% due June 24, 2002 | — | — | 19,403,336 | 19,287,090 |
| | **121,471,156** | **121,471,156** | 128,669,625 | 128,493,676 |

The treasury bills and bankers' acceptances are due within the next 15 months and bear interest from 2.8% to 4.4% [2002 - 1.9% to 5.9%].

**Ontario Trillium Foundation**

# NOTES TO FINANCIAL STATEMENTS

March 31, 2003

## 4. CAPITAL ASSETS

Capital assets consist of the following:

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | Cost<br>$ | Accumulated amortization<br>$ | Net book value<br>$ | Cost<br>$ | Accumulated amortization<br>$ | Net book value<br>$ |
| Furniture and fixtures | **678,741** | **562,440** | **116,301** | 645,630 | 442,312 | 203,318 |
| Computer hardware | **848,473** | **618,863** | **229,610** | 827,198 | 671,547 | 155,651 |
| Computer software | **607,433** | **595,794** | **11,639** | 584,152 | 522,700 | 61,452 |
| Leasehold improvements | **1,190,019** | **587,739** | **602,280** | 1,184,019 | 455,766 | 728,253 |
| | **3,324,666** | **2,364,836** | **959,830** | 3,240,999 | 2,092,325 | 1,148,674 |

## 5. GOVERNMENT FUNDING

Effective April 1, 1999, OTF began to receive funding from the Ministry for a new mandate to be carried out through two programs: the Community and Province-wide Grants Programs. During the fiscal years ended March 31, 2003 and 2002, OTF received $100 million of funding and must use $100 million less operating expenses not covered by investment income for the two grant programs. Funding received in these years has been recorded in the continuity of deferred contributions *[note 6[a]]*.

**Ontario Trillium Foundation**

## NOTES TO FINANCIAL STATEMENTS

March 31, 2003

The amount recognized as Ontario government funding is calculated as follows:

| | 2003<br>$ | 2002<br>$ |
|---|---|---|
| **Grants pledged, rescinded or recovered during the year** | | |
| Grants pledged | **98,519,400** | 106,057,700 |
| Grants rescinded or recovered related to grants approved after March 31, 1999 | **(1,652,078)** | (914,896) |
| | **96,867,322** | 105,142,804 |
| **Operating expenses not covered by investment income** | | |
| Grantmaking expenses | **8,681,752** | 8,488,971 |
| Support services and amortization | **1,445,065** | 1,459,139 |
| Investment income | **(4,734,431)** | (7,842,051) |
| | **5,392,386** | 2,106,059 |
| **Amount recognized as Ontario government funding** | **102,259,708** | 107,248,863 |

The amount in excess of the $100 million of funding received in each year represents a reduction in deferred contributions.

Since April 1996, OTF has received funding from the Ministry for Partnership Programs which include the Community Connections Program, Access Fund and Community Linkages Program. No funding was received for these programs in fiscal 2003 or 2002.

The government funding is subject to Memoranda of Understanding with the Ministry that define how the funds must be invested and distributed.

**Ontario Trillium Foundation**

# NOTES TO FINANCIAL STATEMENTS

March 31, 2003

## 6. DEFERRED CONTRIBUTIONS AND GRANTS PAYABLE

[a] Deferred contributions represent funding received from the Ministry that has not yet been pledged as grants. The continuity of deferred contributions is as follows:

| | 2003 | | | 2002 |
|---|---|---|---|---|
| | **Community and Province-wide Grants Programs** $ | **Partnership Programs** $ | **Total** $ | **Total** $ |
| **Deferred contributions, beginning of year** | 4,593,298 | 1,049,410 | 5,642,708 | 12,838,520 |
| **Activities during the year** | | | | |
| Funding received *[note 5]* | 100,000,000 | — | 100,000,000 | 100,000,000 |
| Interest income recorded as revenue | 4,643,894 | 90,537 | 4,734,431 | 7,842,051 |
| Grants pledged | (97,526,900) | (992,500) | (98,519,400) | (106,057,700) |
| Grantmaking expenses | (8,529,827) | (151,925) | (8,681,752) | (8,488,971) |
| Support services and amortization | (1,445,065) | — | (1,445,065) | (1,459,139) |
| Grants rescinded or recovered related to grants approved after March 31, 1999 | 1,642,454 | 9,624 | 1,652,078 | 914,896 |
| Interest income available for use in future years | — | — | — | 53,051 |
| | (1,215,444) | (1,044,264) | (2,259,708) | (7,195,812) |
| **Deferred contributions, end of year** | 3,377,854 | 5,146 | 3,383,000 | 5,642,708 |

**Ontario Trillium Foundation**

## NOTES TO FINANCIAL STATEMENTS

March 31, 2003

[b] Once OTF pledges grants for distribution, the grants are recorded as grants payable. Grants pledged and not yet distributed are payable, subject to the receipt of funds by OTF and to certain performance conditions placed on the recipients. The continuity of grants payable is as follows:

| | 2003<br>$ | 2002<br>$ |
|---|---|---|
| **Grants pledged** | | |
| Community and Province-wide Grants Programs | **97,526,900** | 104,664,000 |
| Partnership Programs | **992,500** | 1,393,700 |
| | **98,519,400** | 106,057,700 |
| Grants rescinded | **(1,357,900)** | (1,055,560) |
| Grants paid | **(101,719,353)** | (89,523,540) |
| Net change in grants payable | **(4,557,853)** | 15,478,600 |
| Grants payable, beginning of year | **116,298,970** | 100,820,370 |
| **Grants payable, end of year** | **111,741,117** | 116,298,970 |

Grants are payable to various organizations in the fiscal years ending March 31 as follows:

| | $ |
|---|---|
| 2004 | 72,876,817 |
| 2005 | 28,222,600 |
| 2006 | 8,839,400 |
| 2007 | 1,617,500 |
| 2008 | 184,800 |
| | 111,741,117 |

**Ontario Trillium Foundation**

# NOTES TO FINANCIAL STATEMENTS

March 31, 2003

## 7. NET ASSETS

The changes in the components of the net assets are as follows:

| | 2003 | | | 2002 |
|---|---|---|---|---|
| | Unrestricted net assets $ | Invested in capital assets $ | Total $ | Total $ |
| **Net assets, beginning of year** | **8,003,151** | **1,148,674** | **9,151,825** | 9,041,522 |
| Excess (deficiency) of revenue over expenses for the year | **320,498** | **(466,437)** | **(145,939)** | 110,303 |
| Purchase of capital assets | **(277,593)** | **277,593** | — | — |
| **Net assets, end of year** | **8,046,056** | **959,830** | **9,005,886** | 9,151,825 |

## 8. NON-GRANT CONTRIBUTIONS TO THE COMMUNITY

Non-grant contributions to the community are charitable activities other than grants, such as partnerships with other organizations, projects initiated by OTF and technical assistance to community organizations. These contributions include expenses allocated from current operations.

## 9. COMMITMENTS

Future minimum annual rental payments for premises under operating leases are as follows:

| | $ |
|---|---|
| 2004 | 325,264 |
| 2005 | 280,181 |
| 2006 | 260,243 |
| 2007 | 247,743 |
| 2008 | 226,342 |

## 10. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2003 financial statements.

**Ontario Trillium Foundation**

# NOTES TO FINANCIAL STATEMENTS

March 31, 2003

**Ontario Trillium Foundation employees paid $100,000 or more in calendar year 2002**
**(unaudited)**

| Name | Position | Salary Paid<br>$ | Taxable Benefits<br>$ |
|---|---|---|---|
| Robin Cardozo | Chief Executive Officer | 181,500 | 10,473 |
| Anne Pashley | Vice-President, Finance & Administration | 118,634 | 8,173 |
| Patricia Else | Director, Grant Operations | 113,731 | 6,620 |
| Diane Labelle-Davey | Director, Human Resources & Volunteer Relations | 112,985 | 7,843 |
| Gayle Waxman | Director, Policy, Research & Evaluation | 112,985 | 6,573 |
| Darlene Frampton | Director, Communications & Public Affairs | 103,697 | 4,453 |

*Prepared under the Public Sector Disclosure Act, 1996*

## *ROM Financial Statements 2001/2002*

## *Auditors' Report*

**To the Trustees of The Royal Ontario Museum**

We have audited the balance sheet of The Royal Ontario Museum as at June 30, 2002 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Museum as at June 30, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Toronto, Canada
August 9, 2002

## Royal Ontario Museum

*(Incorporated by Special Act of the Ontario Legislature as a corporation without share capital)*

### *Balance Sheet as at June 30*

| | 2002 | 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| ASSETS | | |
| **Current** | | |
| Cash and short-term investments (note 4) | 1,237 | 5 |
| Due from The Royal Ontario Museum Foundation (note 13) | 3,415 | 1,265 |
| Other accounts receivable | 1,224 | 1,361 |
| Inventories | 455 | 526 |
| Deferred exhibition costs and other assets | 1,447 | 833 |
| **Total current assets** | 7,778 | 3,990 |
| Investments (note 4) | 481 | 1,812 |
| Deferred pension costs (note 14) | 3,155 | 3,236 |
| Capital assets, net (note 5) | 45,147 | 53,153 |
| Other assets | 279 | 298 |
| | 56,840 | 62,489 |
| LIABILITIES AND NET ASSETS | | |
| **Current** | | |
| Accounts payable and accrued liabilities (note 14) | 4,969 | 4,264 |
| Deferred revenue (note 7) | 5,769 | 4,695 |
| **Total current liabilities** | 10,738 | 8,959 |
| Deferred capital contributions (note 8) | 44,765 | 53,522 |
| Net assets (note 9) | 1,337 | 8 |
| | 56,840 | 62,489 |

(See accompanying notes)

On behalf of the Board:

Harriet Walker, Trustee

## Royal Ontario Museum

## *Statement of Operations and Changes in Net Assets Year Ended June 30*

| | 2002 | 2001 |
|---|---|---|
| | See schedule | |
| | (in thousands of dollars) | |
| REVENUES | | |
| Grants (note 10) | 23,193 | 24,233 |
| Admission fees | 4,561 | 3,559 |
| Museum programs | 2,149 | 1,994 |
| Ancillary services | 8,602 | 8,422 |
| Investment income | 62 | 110 |
| Donations - Gifts in kind | 1,087 | 1,084 |
| Amortization of deferred capital contributions (note 2) | 11,705 | 4,022 |
| Other (note 13) | 1,632 | 2,941 |
| **Total revenues** | 52,991 | 46,365 |
| EXPENSES | | |
| Curatorial and collection management | 11,090 | 10,835 |
| Building, security and visitor services | 7,212 | 7,563 |
| Ancillary services | 6,665 | 6,694 |
| General and administration | 3,388 | 2,993 |
| Education and public programs | 2,113 | 2,141 |
| Library and information services | 2,202 | 1,966 |
| Exhibition and gallery development | 1,344 | 1,524 |
| Marketing and public relations | 1,698 | 1,699 |
| Temporary exhibitions | 2,628 | 3,080 |
| Artifacts and specimens | | |
| - Gifts in kind | 1,087 | 1,084 |
| - Purchased | 1,137 | 1,370 |
| Amortization of capital assets (note 2) | 11,953 | 4,169 |
| Other (note 13) | 76 | 1,220 |
| **Total expenses (note 11)** | 52,593 | 46,338 |
| **Excess of revenues over expenses for the year** | 398 | 27 |
| **Restricted capital contributions for the purchase of land** | 931 | |
| **Net assets (deficit), beginning of year (note 9)** | 8 | (19) |
| **Net assets, end of year (note 9)** | 1,337 | 8 |

(See accompanying notes)

## Royal Ontario Museum

## *Statement of Cash Flows Year Ended June 30*

| | 2002 | 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| OPERATING ACTIVITIES | | |
| Excess of revenues over expenses for the year | 398 | 27 |
| Add (deduct) non-cash items | | |
| Pension income (expense) | 81 | (638) |
| Amortization of capital assets | 11,953 | 4,169 |
| Amortization of deferred capital contributions | (11,705) | (4,022) |
| | 727 | (464) |
| Changes in non-cash working capital balances related to operations | | |
| Due from The Royal Ontario Museum Foundation | 2,150 | (210) |
| Other accounts receivable | 137 | 179 |
| Inventories | 71 | 39 |
| Deferred exhibition costs and other assets | (614) | (263) |
| Accounts payable and accrued liabilities | 705 | (656) |
| Deferred revenue | 1,074 | 288 |
| | (777) | (623) |
| **Cash used in operating activities** | (50) | (1,087) |
| INVESTING AND FINANCING ACTIVITIES | | |
| Purchase of capital assets | (3,947) | (2,610) |
| Sale (purchase) of investments, net | 1,331 | (1,007) |
| Decrease in other assets | 19 | 21 |
| Restricted contributions received for land purchases | 931 | |
| Contributions received for capital asset purchases | 2,948 | 2,375 |
| **Cash provided by (used in) investing and financing activities** | 1,282 | (1,221) |
| **Net increase (decrease) in cash and short-term investments during the year** | 1,232 | (2,308) |
| **Cash and short-term investments, beginning of year** | 5 | 2,313 |
| **Cash and short-term investments, end of year** | 1,237 | 5 |

(See accompanying notes)

# Royal Ontario Museum

## *Notes to Financial Statements June 30, 2002*

### 1. General

The Royal Ontario Museum (the "Museum") is an operating enterprise agency of the Province of Ontario incorporated without share capital by Special Act of the Ontario Legislature. The Museum is Canada's largest museum and one of the few of its kind to explore and exhibit both the art and archaeology of human cultures and the history of the natural world. The Museum's mission is to inspire wonder and build understanding of human cultures and the natural world.

The Museum is registered as a charitable organization under the Income Tax Act (Canada) (the "Act") and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes. In order to maintain its status as a registered charity under the Act, the Museum must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

### 2. Renaissance ROM Project

The Board of Trustees has approved in principle, and for planning purposes a major re-development project for the Museum. The project will be completed in two phases with a total estimated cost of $200 million. The first phase, with a total cost of $150 million is planned for completion in December 2005. Phase II will cost an additional $50 million and is scheduled to be completed one year later. The total project will involve construction and restoration of the original buildings as well as 40,000 square feet of new gallery spaces. Renaissance ROM will permanently alter the Museum's economic base, providing additional annual market income to sustain excellence across the board.

Funding for this project will come from the public and private sectors. To date the Museum has received commitments from the Federal and Provincial governments of $60 million. As at June 30, 2002, the Museum has spent $1.6 million on the project which is recorded on the balance sheet as capital assets.

In anticipation of the project, the remaining life of certain capital assets has been reduced and, as a result, the amortization period of these assets revised accordingly. In addition, amortization of the related deferred capital contribution has been revised.

### 3. Summary of significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

#### Revenue recognition

The Museum follows the deferral method of accounting for contributions, which include donations and government grants. Contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection reasonably assured. Donations are recorded on a cash basis since pledges are not legally enforceable claims.

Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for the purchase of land are credited directly to Invested in Capital Assets. Externally restricted contributions for the purchase of other capital assets are deferred and amortized over the life of the related capital asset. Endowment contributions are recognized as direct increases in net assets in the year in which they are received.

#### Investments

Investments are recorded at market value. Investment income consists of interest, dividends, realized gains (losses) and the net change in unrealized gains and losses.

#### Inventories

Inventories, which consist primarily of gift shop items held for sale, publications and supplies, are stated at the lower of average cost and net realizable value.

#### Deferred exhibitions and other costs

Costs of exhibitions are deferred until the exhibitions are opened to the public and then are expensed over the period of the exhibitions to which they relate.

#### Employee benefit plans

The Museum accrues its obligations under employee benefit plans and related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at a market-related value whereby investment gains and losses are recognized over a three year period.

The transitional asset (obligation), the impact of any change to plan provision, and the excess of the cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligations and the market related value of the plan assets are amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 12 years. The average remaining service period of the active employees covered by other retirement benefit plans is 17 years.

### Capital assets

Land is carried at cost. Purchased capital assets are stated at acquisition cost. Contributed capital assets are recorded at fair market value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Building | 40 years |
| Galleries | 20 years |
| Major capital projects | 5 to 10 years |
| Furniture and equipment | 3 to 10 years |

### Artifacts and specimens

The value of artifacts and specimens has been excluded from the balance sheet. Gifted artifacts and specimens are recorded as revenue at values based on appraisals by independent appraisers. The acquisition of both gifted and purchased artifacts and specimens is expensed.

### Contributed materials and services

Because of the difficulty in determining their fair market value, contributed materials and services are not recognized in the financial statements.

## 4. Investments

Investments consist of the following:

| | 2002 | 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| Cash and short-term investments | 1,618 | 1,590 |
| Canadian bonds | 75 | 200 |
| Canadian preferred shares | 24 | 24 |
| Accrued interest | 1 | 3 |
| | 1,718 | 1,817 |
| Less amounts recognized as other investments | 481 | 1,812 |
| Cash and short-term investments | 1,237 | 5 |

The amount of investments classified as non-current represents the cash and short-term investments held for unspent deferred capital contributions [note 8].

## 5. Capital assets

[a] Capital assets consist of the following:

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| | (in thousands of dollars) | | | |
| Land and building | 56,843 | 31,783 | 54,912 | 27,373 |
| Galleries | 37,710 | 21,632 | 37,579 | 15,113 |
| Major capital projects | 10,930 | 9,094 | 10,023 | 8,319 |
| Renaissance ROM Project (note 2) | 1,620 | | | |
| Furniture and equipment | 2,589 | 1,036 | 2,160 | 716 |
| | 109,692 | 63,545 | 104,674 | 51,521 |
| Less accumulated amortization | 63,545 | | 51,521 | |
| Net book value | 45,147 | | 53,153 | |

[b] The change in net book value of capital assets is due to the following:

| | 2002 | 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| Balance, beginning of year | 53,153 | 54,712 |
| Purchase of capital assets funded by restricted capital contributions: | | |
| Land | 931 | |
| Other capital assets | 2,659 | 1,367 |
| Purchase of capital assets funded internally | 357 | 1,243 |
| Amortization of capital assets | (11,953) | (4,169) |
| Balance, end of year | 45,147 | 53,153 |

## 6. Artifacts and specimens

As at June 30, 2002, the collection consisted of approximately 5,951,000 artifacts and specimens. During the year, the Museum accessioned approximately 1,000 objects to its collections through the acquisition and purchase of artifacts.

## 7. Deferred revenue

Deferred revenue represents grants from federal and provincial governments, corporations and The Royal Ontario Museum Foundation (the "Foundation") related primarily to next year's operations.

## 8. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of grants and donations received for the purchase of capital assets and gallery development. The amortization of capital contributions is recorded as revenue in the Statement of Operations and Changes in Net Assets. The changes in the deferred capital contributions balance are as follows:

| | 2002 | 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| Balance, beginning of year | 53,522 | 55,169 |
| Amortization of deferred capital contributions | (11,705) | (4,022) |
| Recognized as grant revenue | - | - |
| Restricted contributions received or receivable for capital asset purchases | 2,948 | 2,375 |
| Balance, end of year | 44,765 | 53,522 |

At June 30, 2002, deferred capital contributions of $481,000 (2001 - $1,812,000) were received but not spent.

## 9. Net assets (deficit)

Changes in the components of net assets (deficit) at June 30 are as follows:

| | | | | 2002 | 2001 |
|---|---|---|---|---|---|
| | Operating deficit | Board restricted | Invested in capital assets | Total | Total |
| | | | (in thousands of dollars) | | |
| Balance, beginning of year | (2,422) | 986 | 1,444 | 8 | (19) |
| Excess of revenues over expenses for the year | 296 | 102 | | 398 | 27 |
| Transfer between funds | (135) | 135 | | | |
| Restricted capital contributions from the Province of Ontario for the purchase of land | | | 931 | 931 | |
| Net change in invested in capital assets | (136) | 27 | 109 | - | - |
| Balance, end of year | (2,397) | 1,250 | 2,484 | 1,337 | 8 |

### 10. Grants

Grants consist of the following:

| | | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands of dollars) | |
| Province of Ontario | -operating | 18,518 | 18,518 |
| | -other | 339 | 256 |
| Government of Canada | | 167 | 88 |
| The Royal Ontario Museum Foundation (note 13) | | 4,169 | 5,371 |
| | | 23,193 | 24,233 |

### 11. Expenses

Expenses are reported in the Statement of Operations and Changes in Net Assets on a functional basis. Expenses by category are as follows:

| | 2002 | 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| Salaries and benefits | 23,173 | 22,344 |
| Purchased goods and services | 29,420 | 23,994 |
| | 52,593 | 46,338 |

### 12. Museum volunteers

During the year, Museum volunteers contributed approximately 86,000 hours in support of the Museum. Their activities include guided gallery tours and a variety of programs that enrich the visitor's experience at the Museum; offering local travel packages that promote the Museum's image in Ontario and throughout the world; and many other support activities. The Museum estimates that the value of these services is in excess of $1.8 million annually.

In addition, the net income generated by the Museum volunteers and the ROM Reproductions Association, an independent volunteer organization affiliated with the Museum, goes directly to support the Museum's activities. During the year ended June 30, 2002, the Museum volunteers contributed $70,000 (2001–$70,000) to the Foundation for acquisition and research projects at the Museum. The ROM Reproductions Association contributed $75,000 (2001–$75,000) to the Foundation for the purchase of artifacts and specimens.

### 13. The Royal Ontario Museum Foundation

The Foundation was incorporated on July 1, 1992 to co-ordinate all private-sector fundraising activities undertaken on behalf of the Museum and its affiliates. The objective of the Foundation is to raise funds available for enhancing exhibitions and public programs, research and acquisitions.

The accounts of the Foundation are presented separately and are not consolidated in these financial statements. As at June 30, 2002, the fund balances of the Foundation are as follows:

| | 2002 | 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| Unrestricted funds | 399 | 683 |
| Restricted funds | | |
| Available currently | 5,885 | 4,037 |
| Available at a future date | 11,346 | 11,011 |
| | 17,231 | 15,048 |
| Endowment funds | | |
| Externally restricted | 6,855 | 7,676 |
| Internally restricted | 1,870 | 2,135 |
| | 8,725 | 9,811 |
| | 26,355 | 25,542 |

During the year, the Foundation granted $6,118,000 (2001–$6,340,000) to the Museum. Of this amount, $4,169,000 (2001–$5,371,000) was recorded as revenue and the balance was recorded as deferred revenue or deferred capital contributions.

In fiscal 2001, The Museum sold property rights for $1,550,000 which was included in other revenues. Of this amount, $1,200,000 was transferred to the Foundation and included in other expenses in fiscal 2001.

## 14. Employee benefits

The Museum has a defined pension benefit plan and other benefit plans that provide pension and other post-employment benefits to most of its employees. Details of these plans are summarized below.

The net expense (income) for the Museum's benefit plans are as follows:

| | 2002 | 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| Defined benefit plan | 419 | (600) |
| Other post-employment benefits | 505 | 489 |
| | 924 | (111) |

Information about the Museum's pension and non-pension plans at June 30 is as follows:

| | Pension | | Non-Pension | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (in thousands of dollars) | | | |
| Accrued liabilities | 43,299 | 43,710 | 3,393 | 3,327 |
| Market value of assets | 42,243 | 45,430 | - | - |
| Surplus (deficit) | (1,056) | 1,720 | (3,393) | (3,327) |
| Unrecognized deficit (surplus) from July 1, 2000 | (6,682) | (7,413) | 2,757 | 2,954 |
| Unrecognized impact of change in pension increase assumption | (5,010) | | | |
| Unrecognized actuarial loss (gain) | 15,903 | 8,929 | (222) | (66) |
| Balance sheet asset (obligation) | 3,155 | 3,236 | (858) | (439) |

The obligation for non-pension plans is included in accounts payable and accrued liabilities.

The significant actuarial assumptions adopted in measuring the Museum's accrued benefit obligations are as follows:

| | Pension | | Non-Pension | |
|---|---|---|---|---|
| | **2002** | **2001** | **2002** | **2001** |
| Discount rate | 7.25% | 7.00% | 7.25% | 7.00% |
| Expected long-term rate of return on plan assets | 7.50 | 7.50 | - | - |
| Rate of compensation increase | 4.25 | 3.50 | - | - |
| Rate of increase in pensions | 0.0 | 1.5 | | |

For measurement purposes, an ultimate 4.5% annual rate of increase in the cost of medical and dental benefits was assumed.

Other information about the Museum's defined benefit plan is as follows:

| | Pension | | Non-Pension | |
|---|---|---|---|---|
| | **2002** | **2001** | **2002** | **2001** |
| | (thousands of dollars) | | | |
| Employee contributions | 597 | 635 | - | - |
| Employer contributions | 336 | - | - | - |
| Benefits paid | 2,123 | 1,867 | 86 | 51 |

## Royal Ontario Museum

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| BAKER | DR. ALLAN | Head, CBCB | $107,407.54 | $301.66 |
| BARNETT | ROBERT | VP, Gallery Dev't | $119,686.52 | $341.27 |
| BECKEL | MARGARET | COO / Secretary to the Board | $200,617.00 | $8,056.10 |
| COLLINS | DR. DESMOND | Head, Palaeobiology | $102,803.95 | $289.65 |
| DARLING | DR. CHRIS | Senior Curator | $100,869.15 | $269.68 |
| ENGSTROM | MARK | Director, Research | $107,740.03 | $302.62 |
| GRAESSER | WILLIAM | Exec. Director, Finance | $105,637.45 | $301.08 |
| HUSHION | ANTHONY | VP, Exhibits, Programs & NMR | $144,119.89 | $396.50 |
| KOESTER | CHRISTOPHER | Exec. Director, HR & OD | $107,206.66 | $301.08 |
| PETERS | JOEL | VP, Marketing & Commercial Dev't | $124,490.71 | $354.71 |
| RAHIMI | DAN | Director, Collections Management | $105,637.45 | $301.08 |
| SHAIKOLI | AL | Exec. Director, Facilities | $105,637.45 | $301.08 |
| SHOREMAN | MICHAEL | Senior VP, Business & Capital Dev't | $163,948.07 | $467.22 |
| SUES | HANS-DIETER | VP, Collections & Research | $138,060.90 | $377.64 |
| THORSELL | WILLIAM | President & CEO | $234,697.95 | $1,684.92 |
| WICKS | DR. FRED | Head, Earth Sciences | $102,205.33 | $288.46 |

# Smart Systems for Health Agency

## Management's Responsibility for Financial Information

Management and the Board of Directors are responsible for the financial statements and all other information presented in the Annual Report. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgment. Management is responsible for the integrity and objectivity of these financial statements. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements in all material respects.

Smart Systems for Health Agency (SSHA) is dedicated to the highest standards of integrity in its business. To safeguard the Agency's assets and assure the reliability of financial information, the Agency follows sound management practices and procedures, and maintains appropriate information systems and internal financial controls. Internal audits are conducted to assess management systems and practices.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal controls. The financial statements have been reviewed by the SSHA Board Audit Committee and approved by the Board of Directors.

The financial statements have been examined by PricewaterhouseCoopers LLP, independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to examine the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express their opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of the Auditors' examination and opinion.

Michael Connolly
Chief Executive Officer (Interim)
Smart Systems for Health Agency

Ruth Hawkins
Chief Administrative Officer
Smart Systems for Health Agency

May 2, 2003

**Auditors' Report**
**To the Board of Directors of**
**Smart Systems for Health Agency**

We have audited the statement of financial position of **Smart Systems for Health Agency** (the Agency) as at January 17, 2003 and March 31, 2003 and the statements of operations and deficit and cash flows for the period from January 17, 2003, the date the Agency commenced its operations, to March 31, 2003. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at January 17, 2003 and March 31, 2003 and the results of its operations and its cash flows for the period from January 17, 2003 to March 31, 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers s.r.l.

*PricewaterhouseCoopers, LLP*

**Chartered Accountants**

## Smart Systems for Health Agency

Statement of Financial Position

| | March 31, 2003<br>$ | January 17, 2003<br>$<br>(note 1) |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 83,697 | - |
| Prepaid expenses | 29,337 | - |
| | 113,034 | - |
| **Capital assets** (note 4) | 19,169,972 | 13,956,423 |
| | 19,283,006 | 13,956,423 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable | 567,113 | - |
| Accrued liabilities | | |
| Operating | 2,186,272 | - |
| Capital | 716,219 | - |
| | 3,469,604 | - |
| **Deferred capital contributions** (note 5) | 18,473,982 | 13,956,423 |
| | 21,943,586 | 13,956,423 |
| **Deficit** | (2,660,580) | - |
| | 19,283,006 | 13,956,423 |

**Approved by the Board of Directors**

Director

Director

## Smart Systems for Health Agency

Statement of Operations and Deficit

**For the period from January 17, 2003 to March 31, 2003**

| | $ |
|---|---|
| **Revenues** | |
| Funds received from government (note 3) | 9,758,326 |
| Amortization of deferred capital contributions (note 5) | 1,151,738 |
| | 10,910,064 |
| **Expenses** | |
| Information technology operations | |
| Production | 5,419,575 |
| Development | 3,173,599 |
| Client support | 1,374,030 |
| | 9,967,204 |
| Privacy, security and standards | 1,101,849 |
| General and administrative | 1,329,694 |
| Total operating expenses | 12,398,677 |
| Amortization | 1,171,967 |
| | 13,570,644 |
| **Excess of expenses over revenues for the period** | (2,660,580) |
| **Fund balance – Beginning of period** | - |
| **Deficit – End of period** | (2,660,580) |

## Smart Systems for Health Agency

Statement of Cash Flows

**For the period from January 17, 2003 to March 31, 2003**

| | $ |
|---|---|
| **Cash provided by (used in)** | |
| **Operating activities** | |
| Excess of expenses over revenues for the period | (2,660,580) |
| Items not affecting cash | (1,151,738) |
| Amortization of deferred capital contributions | 1,171,967 |
| Amortization | |
| | (2,640,351) |
| Change in non-cash working capital items | |
| Prepaid expenses | (29,337) |
| Accounts payable | 567,113 |
| Accrued liabilities – operating | 2,186,272 |
| | 2,724,048 |
| | 83,697 |
| **Investing activities** | |
| Purchase of capital assets | (5,669,297) |
| **Financing activities** | |
| Deferred contributions received | 5,669,297 |
| **Net increase in cash during the period** | 83,697 |
| **Cash – Beginning of period** | - |
| **Cash – End of period** | 83,697 |

# Smart Systems for Health Agency

Notes to the Financial Statements

**March 31, 2003**

## 1 Nature of operations

On February 11, 2002, the Smart Systems for Health Agency (SSHA or the Agency) was established as a corporation without share capital by Ontario Regulation 43/02 in accordance with Section 5 of the Development Corporations Act. SSHA is an operational service agency as defined by the Management Board of Cabinet Directives. Subsection 2(3) of 0. Reg. 43/02 provides that SSHA is, for all its purposes, an agency of Her Majesty within the meaning of the Crown Agency Act and its powers may be exercised only as an agency of Her Majesty. Subsection 6(1) of 0. Reg. 43/02 provides that the Board of Directors is composed of the members appointed by the Lieutenant Governor in Council. Pursuant to subsection 7(1) of 0. Reg. 43/02 and subject to any directions given by the Minister of Health and Long-Term Care under Section 8, the affairs of the Agency are under the management and control of the Board of Directors. The Lieutenant Governor in Council appointed 11 members to the SSHA Board of Directors.

The Board of Directors passed its first by-law on January 16, 2003. As such, SSHA ceased operating as part of the Ministry of Health and Long-Term Care (MOHLTC) and began operating as an arm's length agency of MOHLTC on January 17, 2003. Therefore, these financial statements only represent the period when the organization was operating as an agency, January 17, 2003 to March 31, 2003.

The Agency prepares its financial statements in accordance with Canadian generally accepted accounting principles as opposed to the cash basis as it was when it was operating as part of the MOHLTC. Therefore, in the statement of financial position, SSHA accrued current liabilities, which resulted in a working capital deficiency of $3,356,570, which will be paid from fiscal 2003/2004 funding.

SSHA is fully funded by the Province of Ontario through the MOHLTC. As an agency of the MOHLTC, SSHA is exempt from income taxes. At the time of writing, the Agency was awaiting its exemption from the federal goods and services tax (GST). However, in the interim, the Agency received permission from the MOHLTC to quote its GST exemption number.

SSHA provides the secure, integrated, province-wide infrastructure to allow electronic communication among Ontario's health-care providers, in support of Ontario's eHealth initiatives. The protection of personal health information of Ontarians is of utmost importance at SSHA. Privacy and security services provided by SSHA complement the network infrastructure services to safeguard personal information maintained by SSHA. In addition, SSHA strives to build consensus on data and technology standards within the health-care community in Ontario.

## 2 Summary of significant accounting policies

### Basis of Accounting

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Outlined below are those accounting policies considered particularly significant.

## Smart Systems for Health Agency

Notes to the Financial Statements

**March 31, 2003**

### Revenue recognition

SSHA follows the deferral method of accounting for contributions. Contributions of assets are deferred and recognized as revenue in the year in which the amortization expense is recognized. Transfer payments from the Ontario government used to purchase capital assets are deferred in the year received and recognized as revenue in the year in which the amortization expense of the related asset is recognized. The balance is recognized as revenue when received, or when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

### Expense recognition

Expenses are recognized as incurred, on an accrual basis, in the period to which they relate.

### Expense categories

Information technology operations include the following:

- Production primarily includes network operations, data centre operations, contact centre operations and the infrastructure executive lead's office.
- Development primarily includes secure messaging infrastructure build, public key infrastructure build and the preliminary work done for establishing a voluntary emergency health record.
- Client support includes client services, architecture and the executive project office.

Privacy, security and standards include costs related to establishing and maintaining a high standard for information security and privacy and building consensus on data technology standards in Ontario's health-care community.

General and administrative expenses include Board of Directors, chief executive office, corporate services, corporate resources, and communications, with the exception of legal and rent costs, which have been allocated to other expense categories based on the work consumed or the floor space occupied.

### Capital Assets

On January 17, 2003, MOHLTC transferred to SSHA all the assets that were purchased while it was operating within the MOHLTC. These assets were transferred for no monetary consideration. These assets were recorded at the net book value of the assets of $13,956,423 as if the MOHLTC's policy was to capitalize and amortize such assets on the date of transfer. A corresponding deferred capital contribution was established on the date of transfer (see notes 4 and 5).

## Smart Systems for Health Agency

Notes to the Financial Statements

**March 31, 2003**

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis with only one-half of the amortization recorded in the year of purchase, over the estimated life of the assets as follows:

| | |
|---|---|
| Computer hardware | 3 years |
| Computer software | 3 years |
| Furniture and office equipment | 5 years |

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amount of revenues and expenses for the period. Actual results may differ from those estimates.

## 3 Government Funding

As required by the Management Board of Cabinet Directive, the Agency and the MOHLTC have entered into a memorandum of understanding (MOU). The MOU outlines the operational, administrative, financial and other relationships that exist between the MOHLTC and the Agency. The Agency operates on the same fiscal year as the Ontario government.

Since the establishment of SSHA on January 17, 2003, the Agency received $15,427,623 in funding from the Ministry, which consisted of the following:

| | $ |
|---|---|
| Payments made directly to third parties on behalf of SSHA | 3,107,629 |
| Cash funding | 12,320,000 |
| | 15,427,629 |
| Amounts required as deferred capital contributions (note 5) | (5,669,297) |
| Funding recognized in the statement of operations | 9,758,326 |

## Smart Systems for Health Agency

Notes to the Financial Statements

**March 31, 2003**

### 4 Capital assets

| | | | March 31, 2003 | January 17, 2003 |
|---|---|---|---|---|
| | Cost<br>$ | Accumulated amortization<br>$ | Net<br>$ | Net<br>$ |
| Computer Hardware | 13,229,751 | 777,228 | 12,452,523 | $ 9,154,412 |
| Computer Software | 6,262,994 | 366,316 | 5,896,678 | 4,286,900 |
| Furniture & Office equipment | 849,194 | 28,423 | 820,771 | 515,111 |
| | 20,341,939 | 1,171,697 | 19,169,972 | 13,956,423 |

The current year's amortization includes the amortization on the capital assets accrued at the fiscal year-end in the amount of $716,219. The amortization on these accrued capital purchases amounted to $20,229 and represents the difference between the amount of amortization of deferred capital contributions and amortization expense on capital assets recognized in the statement of operations.

### 5 Deferred capital contributions

Deferred capital contributions represent the capital assets transferred from the MOHLTC on January 17, 2003 as well as subsequent contributions received for the purpose of purchasing capitalassets. These contributions are being recognized as income on the same basis as the amortization expense of the related capital assets.

| | $ |
|---|---|
| Opening – January 17, 2003 | 13,956,423 |
| Contributions Received | 5,669,297 |
| Amortization | (1,151,738) |
| Closing | 18,473,982 |

The contributions received represent the funds used for the purchase and payments of capital assets in the current fiscal year. Contributions for the capital asset purchases accrued for in the year, but not yet paid until the following year, will be recognized in the next fiscal year.

# Smart Systems for Health Agency

Notes to the Financial Statements

**March 31, 2003**

## 6 Contractual commitments

SSHA has contractual commitments to build and deploy infrastructure services to support Ontario's eHealth vision and strategy. The commitments are for developing a secure messaging infrastructure, providing highly secure data centres and establishing and operating the public key infrastructure. Payments required on these commitments are as follows:

| | $ |
|---|---|
| 2004 | 25,229,810 |
| 2005 | 22,539,707 |
| 2006 | 16,331,665 |
| 2007 | 5,100,653 |
| 2008 | 4,140,043 |
| Thereafter | 9,704,173 |

## 7 Operating lease commitments

### a) Office space

Ontario Realty Corporation holds three leases on the office space occupied by SSHA. SSHA is responsible for all the operating lease payments. The payments required to the date of expiry are as follows:

| | $ |
|---|---|
| 2004 | 858,571 |
| 2005 | 604,208 |
| 2006 | 604,208 |
| 2007 | 190,702 |

SSHA expects to renew these leases as they expire. One of the leases expires on January 31, 2004 and the remaining two leases expire in 2006. The above table excludes any renewal periods.

### b) Desktop information technology

SSHA leases its desktop technology through the Government of Ontario Vendor of Record (VOR). The existing lease commitments are as follows:

| | $ |
|---|---|
| 2004 | 545,419 |
| 2005 | 156,864 |
| 2006 | 12,940 |

The VOR expires on January 31, 2004. SSHA is currently investigating leasing arrangements for the ongoing provision of desktop information technology necessary to support the operations of the Agency.

## Smart Systems for Health Agency

Notes to the Financial Statements

**March 31, 2003**

### 8 Contingencies

Subsection 2(3) of O. Reg. 43/02, which establishes the Agency, provides that SSHA, for all its purposes, is an agent of Her Majesty within the meaning of the Crown Agency Act and its powers may only be exercised as an agent of Her Majesty. Section 17 of O. Reg. 43/02 provides:

1 7.(1) No employee or agent of the agency and no administrator appointed under subsection 13(1) is liable for anything done or omitted in good faith in the exercise or purported exercise of the powers conferred or duties imposed by this regulation.

17.(2) Subject to any duties, obligations or responsibilities imposed by statute, no member or officer of the agency is liable for anything done or omitted in good faith in the exercise or purported exercise of the powers conferred or duties imposed by this regulation.

# Toronto Area Transit Operating Authority

## Office of the Provincial Auditor of Ontario

*Auditor's Report*

To the Toronto Area Transit Operating Authority
and to the Minister of Transportation

I have audited the balance sheet of the Toronto Area Transit Operating Authority as at March 31, 2003 and the statement of operations and deficiency for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2003 and the results of its operations for the year then ended in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants.

Toronto, Ontario
July 16, 2003

J.R. McCarter, CA
Assistant Provincial Auditor

## TORONTO AREA TRANSIT OPERATING AUTHORITY

### Balance Sheet
### March 31, 2003

| | 2003 ($000s) | 2002 ($000s) |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Due from Province of Ontario | 8,625 | 8,736 |
| **Capital Assets Pledged as Collateral** (Note 3) | 194,231 | 215,321 |
| | 202,856 | 224,057 |
| **LIABILITIES AND DEFICIENCY** | | |
| **Current Liabilities** | | |
| Current portion of long-term debt (Note 4) | 4,041 | 3,704 |
| Interest on long-term debt | 8,625 | 8,736 |
| | 12,666 | 12,440 |
| **Long-term Debt** (Note 4) | 460,262 | 452,800 |
| **Deficiency** | (270,072) | (241,183) |
| | 202,856 | 224,057 |

See accompanying notes to financial statements.

Approved by:

Chair

Board Member

## TORONTO AREA TRANSIT OPERATING AUTHORITY

### Statement of Operations and Deficiency
### For the Year Ended March 31, 2003

| | 2003<br>($000s) | 2002<br>($000s) |
|---|---|---|
| **Revenue** | | |
| Operating subsidies from the Province | 38,282 | 37,461 |
| **Expenses** | | |
| Amortization of capital assets | 21,090 | 21,317 |
| Amortization of deferred foreign exchange loss on long-term debt | 11,027 | 10,255 |
| Interest on long-term debt | 35,054 | 35,396 |
| | 67,171 | 66,968 |
| **Excess of Expenses over Revenue** | (28,889) | (29,507) |
| **Deficiency, beginning of year** | (241,183) | (211,676) |
| **Deficiency, end of year** | (270,072) | (241,183) |

## TORONTO AREA TRANSIT OPERATING AUTHORITY

### Notes to Financial Statements
### March 31, 2003 (dollars in thousands)

---

### 1. NATURE OF THE CORPORATION

The Toronto Area Transit Operating Authority (Authority) was established as a corporation without share capital under the *Toronto Area Transit Operating Authority Act*. On August 7, 1999, pursuant to the since repealed *Greater Toronto Services Board Act, 1998*, the transit business of the Authority was transferred to the Greater Toronto Transit Authority (GTTA) without compensation. The transfer included all assets (including $58,777 in cash) and liabilities and employees, except for the railway rolling stock and related debt represented by conditional sales agreements described in Note 4, which the Authority continues to administer.

### 2. ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants. The accounting policies are as follows:

#### (a) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Locomotives | 20 years |
| Other railway rolling stock | 25 years |
| Locomotive overhauls | 5 years |

#### (b) Foreign currency translation

Long-term debt payable in U.S. dollars is translated to Canadian dollars at rates of exchange in effect at the end of the period. Unrealized exchange gains or losses arising on translation are deferred and amortized over the remaining term of the debt.

#### (c) Administrative expenses

Administrative services are provided by the Ministry of Transportation without charge.

## TORONTO AREA TRANSIT OPERATING AUTHORITY

**Notes to Financial Statements**
**March 31, 2003 (dollars in thousands)**

### 3. CAPITAL ASSETS

The capital assets are comprised of locomotives and other railway rolling stock pledged as collateral for the long-term debt described in note 4.

| | 2003 | | | 2002 |
|---|---|---|---|---|
| | Cost<br>$ | Accumulated Amortization<br>$ | Net<br>$ | Net<br>$ |
| Other Railway Rolling Stock | 363,308 | 207,018 | 156,290 | 170,822 |
| Locomotives | 110,905 | 73,116 | 37,789 | 43,335 |
| Locomotive Overhauls | 7,312 | 7,160 | 152 | 1,164 |
| | 481,525 | 287,294 | 194,231 | 215,321 |

### 4. LONG-TERM DEBT

At the request of the Ontario Minister of Finance, the Authority entered into a financing transaction on March 31, 1994. Under the terms of the transaction, 42 of the locomotives and 243 bi-level cars were sold for US$311,867 (CDN$431,530) and immediately repurchased from the same counterparty at the same price under conditional sales agreements (CSAs) maturing on July 1, 2006. The proceeds from the original sale was returned to the Province net of transaction costs of $4,271. While under the CSAs, the Authority agreed to repay the obligation and interest thereon over the 12-year period. Pursuant to a memorandum of understanding dated December, 1993 with the Minister of Finance, and affirmed by the Deputy Minister of Transportation in a letter dated July 9, 1997, the Province will provide funds to the Authority in a timely manner and in the amounts necessary to enable the Authority to satisfy the debt and interest obligations.

The transaction has been accounted for as a collateralized financing. The debt is collateralized by the locomotives and bi-level cars. The Authority retains the right to use the locomotives and bi-level cars and is liable for maintenance and all other associated obligations. On August 7, 1999, the Authority signed an equipment lease agreement leasing these locomotives and bi-level cars to the Greater Toronto Transit Authority (GTTA) at a nominal amount of one dollar annually. Under this equipment lease agreement which expires on July 1, 2006, GTTA is liable for the maintenance and all other associated obligations.

To minimize the risk of fluctuations in foreign exchange rates to the Ontario government, the Province has entered into a currency swap agreement. At year end, approximately 80% of the debt was hedged by the currency swap. As the Authority is not a party to the currency swap agreement, the effects of this agreement are not reflected in these financial statements. As such, the Authority recognizes and defers the full impact of currency fluctuations net of accumulated amortization while the Province recognizes the offsetting gain or loss on the swap. Due to the unique nature of the long-term debt, it is not practical to determine a fair value of this transaction.

## TORONTO AREA TRANSIT OPERATING AUTHORITY

**Notes to Financial Statements**
**March 31, 2003 (dollars in thousands)**

### 4. LONG-TERM DEBT (CONTINUED)

| CSA Number | Maximum Loan US$ | Average Interest Rate % | Balance at March 31, 2003 US$ | Collateral |
|---|---|---|---|---|
| 1 | 14,487 | 7.27536 | 14,118 | Bi-level cabs and coaches |
| 2 | 108,926 | 7.26143 | 107,351 | Bi-level cabs and coaches |
| 3 | 23,794 | 7.38419 | 21,813 | Locomotives |
| 4 | 70,319 | 7.28488 | 68,349 | Bi-level cabs and coaches |
| 5 | 60,702 | 7.36798 | 60,596 | Bi-level coaches |
| 6 | 41,926 | 7.39563 | 40,875 | Locomotives |
| | 320,154 | | 313,102 | |
| Translated to Canadian Dollars at | | | 1.4678 | |
| CAN$ | | | 459,571 | |
| Deferred foreign exchange loss net of accumulated amortization of $31,064 | | | 4,732 | |
| | | | 464,303 | |
| Less: Current portion | | | (4,041) | |
| | | | 460,262 | |

The annual repayments on a fiscal year basis in US dollars that the Authority is required to make are as follows:

| Fiscal Year | Principal Repayment US$ | Interest US$ | Total US$ |
|---|---|---|---|
| 2003-2004 | 2,753 | 22,889 | 25,642 |
| 2004-2005 | 8,069 | 22,597 | 30,666 |
| 2005-2006 | 8,911 | 22,073 | 30,984 |
| 2006-2007 | 293,369 | 10,727 | 304,096 |
| | 313,102 | 78,286 | 391,388 |

### 5. STATEMENT OF CASH FLOWS

A statement of cash flows was not required as the information which it would contain is readily available from these financial statements.

# TRUSTS AND OTHER MISCELLANEOUS FINANCIAL STATEMENTS

# DEPOSIT INSURANCE CORPORATION OF ONTARIO

## Management's Responsibility

The Deposit Insurance Corporation of Ontario's management is responsible for the integrity and fair presentation of the financial statements included in the annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The Corporation maintains systems of internal accounting controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed by the Corporation's Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been examined by KPMG LLP, the auditors, whose report follows.

Andrew

Andrew Poprawa, CA
*President & CEO*

James Maxwell
*Chief Administrative and Financial Officer*

Toronto, Canada
January 30, 2003

## Auditors' Report

KPMG LLP

**To the Board of Directors of**
**Deposit Insurance Corporation of Ontario**

We have audited the Statement of Financial Position of Deposit Insurance Corporation of Ontario as at December 31, 2002 and the Statement of Operations and Changes in the Deposit Insurance Reserve Fund and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
January 30, 2003

**DEPOSIT INSURANCE CORPORATION OF ONTARIO**

# Statement of Financial Position

**DECEMBER 31, 2002, WITH COMPARATIVE FIGURES FOR 2001 *(IN THOUSANDS OF DOLLARS)***

| | 2002 | 2001 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 1,218 | $ 1,213 |
| Investments (note 2) | 44,438 | 35,457 |
| Premium receivable | 2,219 | 1,055 |
| Accounts and interest receivable | 356 | 1,001 |
| Deposit insurance advances recoverable | 3,946 | 2,757 |
| Capital assets (net of accumulated amortization of $3,077 (2001 - $2,930)) | 256 | 320 |
| | $52,433 | $41,803 |
| **LIABILITIES** | | |
| Payables and accruals | 1,948 | 1,959 |
| Deferred premium income | 2,280 | 1,130 |
| Accrual for deposit insurance losses (note 4) | 5,066 | 9,749 |
| Total Liabilities | 9,294 | 12,838 |
| **EQUITY** | | |
| Deposit Insurance Reserve Fund | 43,139 | 28,965 |
| | $52,433 | $41,803 |

Contingencies (note 10)

See accompanying notes to financial statements

**On behalf of the Board:**

Director

B Boake

Director

**DEPOSIT INSURANCE CORPORATION OF ONTARIO**

## Statement of Operations and Changes in the Deposit Insurance Reserve Fund

**YEAR ENDED DECEMBER 31, 2002, WITH COMPARATIVE FIGURES FOR 2001 *(IN THOUSANDS OF DOLLARS)***

| | 2002 | 2001 |
|---|---|---|
| **INCOME** | | |
| Premium income | $ 14,110 | $13,916 |
| Other income | 1,190 | 1,643 |
| | 15,300 | 15,559 |
| **EXPENSES** | | |
| Recovery of losses | (5,116) | (3,817) |
| Salaries and benefits | 4,220 | 4,120 |
| Loan fee / Interest expense | 16 | 14 |
| Operating expense | 2,607 | 2,637 |
| Recovery of operating expense | (601) | (1,241) |
| | 1,126 | 1,713 |
| **Excess of income over expenses** | 14,174 | 13,846 |
| Deposit Insurance Reserve Fund, beginning of year | 28,965 | 15,119 |
| **Deposit Insurance Reserve Fund, end of year** | $ 43,139 | $28,965 |

See accompanying notes to financial statements.

**DEPOSIT INSURANCE CORPORATION OF ONTARIO**

# Statement of Cash Flows

**YEAR ENDED DECEMBER 31, 2002, WITH COMPARATIVE FIGURES FOR 2001 *(IN THOUSANDS OF DOLLARS)***

| | 2002 | 2001 |
|---|---|---|
| Cash received from (applied to): | | |
| **Operations**: | | |
| Excess of income over expenses | $14,174 | $13,846 |
| Items charged to operations not affecting cash | | |
| Recovery of losses | (5,116) | (3,817) |
| Gain on disposal of capital assets | (2) | - |
| Amortization | 151 | 180 |
| | 9,207 | 10,209 |
| Changes in: | | |
| Premium receivable | (1,164) | (1,055) |
| Accounts and interest receivable | 645 | (756) |
| Payables and accruals | (11) | 321 |
| Deferred premium income | 1,150 | 1,130 |
| | 620 | (360) |
| Net deposit insurance advances / recoveries (note 4) | (756) | 3,351 |
| | 9,071 | 13,200 |
| **Investing activities:** | | |
| Purchase of capital assets | (88) | (158) |
| Proceeds on sale of capital assets | 3 | - |
| | (85) | (158) |
| **Increase in cash position** | 8,986 | 13,042 |
| Cash position, beginning of year | 36,670 | 23,628 |
| **Cash position, end of year** | $45,656 | $36,670 |
| Supplementary cash flow information: | | |
| Interest paid during the year | $ 7 | $ 9 |

Cash position is defined as cash and short-term investments less any borrowings.

See accompanying notes to financial statements.

# Notes to Financial Statements

## Year ended December 31, 2002

### General

Deposit Insurance Corporation of Ontario is an "Operational Enterprise" Agency of the Province of Ontario without share capital established under the provisions of the Credit Unions and Caisses Populaires Act.

The statutory objects of the Corporation under the Act are to:

- provide deposit insurance to depositors of member institutions;
- act as stabilization authority for the credit union and caisse populaire system;
- promote standards of sound business practices
- collect and publish statistics;
- provide financial assistance to member institutions
- act as administrator of member institutions;
- minimize deposit insurance risk and size of claims.

The Act empowers the Corporation to assess its member institutions to meet the Corporation's requirements for insurance funding and administrative costs. The Corporation establishes its premium levy annually. The established premium levy is submitted to the Government of Ontario for review and incorporation into the regulations through appropriate amendments as necessary.

In addition the Corporation's borrowings, if any, are guaranteed by the Minister's guarantee on behalf of the Province of Ontario. The guarantee is for a maximum of $75 million and will expire on December 31, 2003. In addition to the guarantee fees of one-half of one per cent of the average end of day balance outstanding of any debt obligation subject to the Minister's guarantee, the Province of Ontario charges a fee of 5 basis points on the unused portion of any credit facility guaranteed for the period ending December 31 of each year during which the new guarantee is in effect.

### 1. Summary of Significant Accounting Policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements do not reflect the assets, liabilities or operations of credit unions or caisses populaires where the Corporation has been appointed liquidator.

#### (a) Premium income:

Premiums are based on a Differential Premium Risk Classification System applied to insured deposits held by member institutions. Premium income is recognized when earned.

#### (b) Provision for losses:

The provision for losses includes allowances against deposit insurance advances and an accrual for losses for which advances have not been made at the date of the Statement of Financial Position.

Funds advanced in respect of deposit insurance and loans to member institutions are initially recorded at cost. Deposit insurance advances recoverable are presented on the Statement of Financial Position net of allowances thereon.

The accrual for deposit insurance losses includes both provisions for specific losses and a general provision for losses. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions, in the opinion of management, exist that will likely result in losses to the Corporation.

The general provision for losses reflects management's best estimate of losses on insured deposits arising from the inherent risk in the credit union/caisse populaire system. The provision is established by assessing the aggregate risk in member institutions based on current market and economic conditions, the likelihood of losses and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates.

#### (c) Pension benefits:

The Corporation has a defined contribution pension plan covering all of its regular, non-contractual employees. Earnings are charged with the cost of pension benefits earned by employees as service is rendered. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The Corporation assumes no actuarial or investment risk.

#### (d) Future non-pension post-retirement benefits:

Future non-pension post-retirement benefits relate to the Corporation's extended health, dental and life benefits for both active employees for whom a full eligibility date was determined and existing qualified retirees. The

Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits. The cost of these future non-pension post-retirement benefits earned by employees is actuarially determined. Accruals for these costs represent discounted future expenditures for existing retirees and discounted future expenditures during the period of active employment for current employees to an expected retirement date.

**(e) Investments:**

Investments comprise short-term fixed income instruments and are recorded at amortized cost. The discounts are amortized on a straight line basis over the terms of the instruments.

**(f) Capital assets:**

These are recorded at cost. Amortization of furniture and equipment is provided by the diminishing-balance method at the rate of 20 per cent per annum. Computer and related equipment and software are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease. Automobiles are amortized by the declining-balance method at the rate of 24 per cent per annum.

## 2. Investments:

Investments have terms to maturity less than one year. They have a weighted-average yield of 2.84% (2001: 3.58%). In compliance with the Corporation's investment policy and relevant statutes, all investments are highly liquid fixed rate contracts and are R1 MID or better on the DBRS scale.

| | 2002 | 2001 |
|---|---|---|
| | *(thousands)* | |
| Treasury Bills-Canada | **$ 31,997** | $ 19,092 |
| Treasury Bills-Ontario | **8,960** | 7,383 |
| Promissory Notes-other provinces | **1,984** | 4,989 |
| Bankers Acceptance | **1,497** | 3,993 |
| Total Investments | **$ 44,438** | $ 35,457 |

## 3. Borrowings:

The Corporation has in place a revolving credit facility, approved by the Ontario Financing Authority, which administers the Minister's guarantee, as follows:

| | Max. Credit Available | Outstanding as at Dec. 31, 2002 |
|---|---|---|
| | *(thousands)* | |
| Canadian Chartered Bank | $20,000 | Nil |

The borrowings are guaranteed by the Minister's guarantee on behalf of the Province of Ontario. The interest rate on the line of credit is Bankers' Acceptance rates plus 14 basis points.

The Corporation pays an annual fee of 5 basis points in arrears to the Province of Ontario on the unused portion of this credit facility with the Chartered Bank. The standby fee charged by the Chartered Bank is 3 basis points on average unused portion of the credit facility, payable in arrears quarterly.

## 4. Accrual for deposit insurance losses:

The provision for losses includes specific provisions for known or likely losses from specific member institutions and a general provision for losses not identified with specific institutions. That portion of the provision for losses recorded in the year and in previous years which has not yet required payment by the Corporation is shown in liabilities on the Statement of Financial Position as "Accrual for deposit insurance losses".

| | 2002 | 2001 |
|---|---|---|
| | *(thousands)* | |
| Accrual for deposit insurance losses, beginning of year | **$ 9,749** | $ 12,167 |
| Increase in Accrual for current year's deposit insurance losses | **-** | 3,525 |
| Decrease in Accrual for prior year's deposit insurance losses | **(5,116)** | (7,342) |
| Net recovery of deposit insurance losses | **(5,116)** | (3,817) |
| Increase (decrease) in deposit insurance advances recoverable | **1,189** | (1,952) |
| Accrual for deposit insurance losses, at end of year | **(5,066)** | (9,749) |
| Net deposit insurance advances/(recoveries) | **$ 756** | $ (3,351) |

The general provision for losses included in "Accrual for deposit insurance losses" amounted to $3,000,000 (2001 - $3,000,000) and is calculated in accordance with the methodology as described in note 1(b).

The Corporation provided financial assistance to a member institution by purchasing its subordinated notes of $350,000 in October 2001. As at December 31, 2002 the Corporation has written off the full amount of these notes as it is the opinion of management that their repayment is unlikely.

### 5. Lease Commitments:

The operating lease for the Corporation's premises is for the term commencing January 1, 1998 and ending August 5, 2007. The future annual minimum rent is $140,000. In addition, the Corporation is required to pay property taxes and common area maintenance costs.

### 6. Income Taxes:

The Corporation is subject to income taxes under the Income Tax Act. It has accumulated losses for income tax purposes of $42,283,000. They expire as follows:

| Originating Taxation Year | Expiring Taxation Year | Amount *(thousands)* |
|---|---|---|
| 1996 | 2003 | 7,566 |
| 1997 | 2004 | 7,449 |
| 1998 | 2005 | 6,885 |
| 1999 | 2006 | 5,975 |
| 2000 | 2007 | 4,992 |
| 2001 | 2008 | 4,191 |
| 2002 | 2009 | 5,225 |
| | | $ 42,283 |

### 7. Pension Plan:

The Corporation substantially collapsed its defined benefit pension plan and, as elected by all its then current employees, transferred the applicable past service actuarial values as at December 31, 1998 to a defined contribution plan. All past service costs have been accounted for on the plan revision. All outstanding obligations of the former defined benefit pension plan were discharged during 2002. The Corporation's pension expense for its defined contribution pension plan charged to income for 2002 was $319,000 (2001-$310,000)

### 8. Future non-pension post-retirement benefits:

The Corporation accounts for the current value of future non-pension post-retirement benefits. The accrued obligation as at December 31, 2002, as actuarially determined, is $708,000 (2001 - $652,000). Current service costs, including interest, were $81,000 (2001 - $75,000). These costs are subject to actuarial re-evaluation resulting from emerging experience gains and losses.

The assumptions used in the actuarial valuation of the future benefits obligations consisted of: interest rate of 6.75%, rate of compensation increase of 4.0% and annual rate of increase in health and dental costs of 12.0%, grading down to 5% per annum over 8 years.

### 9. Directors' Expense:

During the year the directors received an aggregate remuneration of $84,000 (2001 - $75,000). Total directors' expense was $53,000 (2001 - $47,000). The fixed per diem rate for the Chair is $500 and for all other board members it is $300.

### 10. Contingencies:

The Corporation is subject to various legal actions brought against it in the normal course of business, when acting in the capacity of administrator or liquidator. It is the view of the Corporation's management that these actions will be successfully defended. Accordingly, no provisions have been made in these financial statements.

### 11. Fair Value Disclosure:

The fair value of financial assets and liabilities which include cash, investments, premium receivable, accounts and interest receivable, payables and accruals approximate their carrying amounts.

The fair value of deposit insurance advances recoverable and the accrual for deposit insurance losses have not been determined because it is not practicable to determine fair value with sufficient reliability.

### 12. Compensation:

The following information is furnished in compliance with the Public Sector Salary Disclosure Act, 1996.

| Employee | Position held | Compensation | Taxable * Benefits |
|---|---|---|---|
| Brydges, Barry | Vice President Stabilization Services | $127,319 | $10,519 |
| Burgman, John | Chief Information Officer | $109,196 | $11,718 |
| Charbonneau, Robert | Vice President Insurance | $133,200 | $10,565 |
| Foster, C.William D. | Vice President Asset Management & Recoveries | $140,781 | $ 9,914 |
| Maxwell, James | Chief Administrative & Financial Officer | $123,519 | $11,676 |
| Poprawa, Andrew | President and CEO | $193,239 | $10,624 |

* Includes taxable group life insurance, parking and use of company vehicle.

Deloitte
& Touche

**MOTOR VEHICLE ACCIDENT CLAIMS FUND**

## Auditors' Report

To the Audit Committee of the Financial Services Commission of Ontario and the
Provincial Auditor of Ontario

Pursuant to our appointment as auditor of the Motor Vehicle Accident Claims Fund (the "Fund"), which audit is under the direction of the Provincial Auditor of Ontario, we have audited the statement of financial position of the Motor Vehicle Accident Claims Fund as at March 31, 2003 and the statement of changes in net fund balance for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2003 and the changes in the Fund for the year then ended in accordance with the basis of accounting disclosed in Notes 3 and 4 to the financial statements.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
June 20, 2003

# MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

## STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2003

### ASSETS

| | 2003<br>$ | 2002<br>(Unaudited)<br>$ |
|---|---|---|
| Funds on Deposit with the Minister of Finance | 6,963,850 | 12,193,214 |
| | **6,963,850** | **12,193,214** |

### LIABILITIES & FUND BALANCE

| | 2003<br>$ | 2002<br>(Unaudited)<br>$ |
|---|---|---|
| Net Fund Balance | 6,963,850 | 12,193,214 |
| | **6,963,850** | **12,193,214** |

See accompanying notes to Financial Statements

Approved:

Bryan P. Davies
Chief Executive Officer and
Superintendent of Financial Services

## MOTOR VEHICLE ACCIDENT CLAIMS FUND
### (Established under the Motor Vehicle Accident Claims Act)

## STATEMENT OF CHANGES IN NET FUND BALANCE
## FOR THE YEAR ENDED MARCH 31, 2003

| | 2003 | 2002 (Unaudited) |
|---|---|---|
| | $ | $ |
| **RECEIPTS** | | |
| Fee on issue or renewal of driver's licences | 8,645,361 | 8,041,358 |
| Repayment by debtors | 2,120,395 | 2,119,266 |
| Prior year recoveries - from third parties | 197,604 | 851,815 |
| **TOTAL RECEIPTS** | **10,963,360** | **11,012,439** |
| **DISBURSEMENTS** | | |
| **Special Purpose Payments** | | |
| **Third Party Claims** | | |
| Judgments, including costs | 3,276,705 | 2,783,606 |
| Out-of-Court settlements | 19,824 | 33,648 |
| Hit-and-run cases, including costs | 207,358 | 442,371 |
| | 3,503,887 | 3,259,625 |
| **Accident Benefits** | | |
| Statutory accident benefits | 8,483,609 | 6,198,963 |
| **Sub-total** | 11,987,496 | 9,458,588 |
| **Administrative Expenses** | | |
| Salaries and wages | 992,771 | 853,424 |
| Employee benefits | 156,914 | 160,377 |
| Transportation and communication | 42,757 | 39,568 |
| Services | | |
| Claims (Solicitors' fees, etc.) | 1,392,783 | 1,144,707 |
| Accident benefits claims expense | 754,873 | 591,151 |
| Other | 807,120 | 1,082,650 |
| Supplies and equipment | 58,010 | 61,918 |
| **Sub-total** | 4,205,228 | 3,933,795 |
| **TOTAL DISBURSEMENTS** | **16,192,724** | **13,392,383** |
| (Decrease) in Fund during the year | (5,229,364) | (2,379,944) |
| Balance in Fund, on deposit with the Minister of Finance, Beginning of Year | 12,193,214 | 7,174,158 |
| Transfer Payment - Subsidization of MVACF | -- | 7,399,000 |
| Balance in Fund, on deposit with the Minister of Finance, End of Year | **6,963,850** | **12,193,214** |

See accompanying notes to Financial Statements

# MOTOR VEHICLE ACCIDENT CLAIMS FUND

# NOTES TO FINANCIAL STATEMENTS

## 1. Authority

The Motor Vehicle Accident Claims Fund (the "Fund") operates under the authority of the Motor Vehicle Accident Claims Act (the "Act"), R.S.O. 1990, Chapter M.41 as amended.

## 2. Fund Operations

The Fund was originally established to provide compensation to victims of motor vehicle accidents caused by uninsured or hit-and-run motorists in Ontario. Uninsured motorists were required to pay an annual fee into the Fund. However, effective March 1, 1980, with the enactment of the Compulsory Automobile Insurance Act, all motorists are required to carry compulsory third party liability insurance including uninsured motorist coverage. In 1990, a new provision to pay accident benefits was created for the Fund.

The Fund now pays claims under four different automobile insurance compensation systems:

1) Tort - prior to June 22, 1990
2) OMPP - between June 22, 1990 and December 31, 1993
3) Bill 164 - between January 1, 1994 and October 31, 1996
4) Bill 59 - from November 1, 1996 and forward

The coverage provided by the Fund is analogous to the minimum required coverage under the standard automobile policy (OAP1) approved by the provincial regulator. Unlike, insurance companies the Fund does not cover claims where the accidents occur outside of Ontario.

## 3. Statement of Changes in Net Fund Balance

### A) Basis of Accounting

The Fund uses the cash basis of accounting which is modified to allow an additional thirty days to pay for goods and services pertaining to the fiscal year just ended. In this regard, certain payments incurred at year end and paid in the first month of the following fiscal year may be reported in the current year.

### B) Receipts

Fees consist of $1.00 charged per year to every driver in the Province of Ontario who renews his/her driver's licence and for every new driver's licence issued.

Amounts collected on outstanding receivables are reported as receipts in the year they are collected (see below for explanation of Accounts Receivable).

### C) Special Purpose Payments

Amounts paid from the Fund to victims of automobile accidents, where there is no insurance to respond to the claim, are reported as expenditures and are broken down into claim types as set out in the Act. These payments are legally recoverable from uninsured at-fault motorists, for all third party, liability claims. Amounts recovered on current year claims are netted in these accounts. Recoveries relating to prior years claims are included in receipts.

### D) Administrative Expenses

The administrative expenditures (e.g. Salaries, Benefits, Transportation & Communication, Services and Supplies & Equipment) are paid out during the course of the year from the Consolidated Revenue Fund. At the end of each fiscal year the Lieutenant Governor in Council authorizes the payment out of the Fund of the amount required to reimburse the Consolidated Revenue Fund for the expenses incurred in connection with the administration of the Fund.

## 4. Statement of Financial Position

### A) Motor Vehicle Accident Claims Fund

The Balance in Fund, on deposit with the Minister of Finance, is held in a Consolidated Revenue Fund Special Purpose Account and is reported as a liability on the Statement of Financial Position of the Province of Ontario.

### B) Accounts Receivable

The records of the Fund provide for an Accounts Receivable portfolio, compiled over the years as a result of third party claim payouts to uninsured victims. In accordance with the Act, these payouts which become receivables, are recoverable from uninsured motorists. The Allowance for Doubtful Accounts process involves an aging method modified to suit the Fund's payout process. At March 31, 2003 the receivables totalled $47.7 million (2002 - $48.3 million). The allowance for doubtful accounts is calculated to be $29.5 million (2002 - $28.8 million) leaving a net realizable value of $18.2 million (2002 - $19.5 million).

### C) Contingent Gains

Some payments out of the Fund are in the form of Structured Settlements for accident benefit claims. These claims have guarantee periods ranging from 10 to 25 years and during this period the reversionary interest will revert to Her Majesty the Queen in right of Ontario as represented by the Minister of Finance should the claimant die.

Even though the range of probability that the claimant may die during the guarantee period is slight, the Fund nevertheless has calculated the approximate reversionary interest as at March 31, 2003 for information purposes.

As at March 31, 2003, the amount paid out of the Fund for accident benefit claims in the form of structured settlements was approximately $5.5 million (2002 - $4.4 million) with applicable reversionary interest of approximately $3.8 million (2002 - $2.6 million).

### D) Fixed Assets

The cost of Fixed Assets, consisting of furniture and equipment and alterations to premises are charged to operations in the period in which they are incurred.

### E) Unfunded Liability

As at March 31, 2003 the Fund is contingently liable for claims in process, claims which have occurred but have not yet been reported, and the expenses required to settle the claims. Based on an actuarial valuation, the estimated payments in all future years arising from outstanding claim and claim settlement expense liability, add up to $124.0 million (2002 - $107.9 million). This amount includes a $7.3 million (2002 -$5.8 million) provision for adverse deviation. Once netted against the Fund's $7.0 million (2002 $12.2 million) balance, and $18.2 million (2002 - $19.5 million) in net receivables, (as per Accounts Receivable, above), this leaves an unfunded liability of $98.8 million (2002 - $76.2 million).

The portion of the overall $124.0 million (2002 - $107.9 million) expected to be paid out in the 2003 - 2004 fiscal year is estimated to be approximately $14.4 million (2002 - $13.0 million).

The Lieutenant Governor in Council, having regard to the condition of the Fund and the amount paid out of the Fund during any period, may direct payment out of the Consolidated Revenue Fund of such an amount as may be considered necessary or advisable to subsidize the Fund.

# Ontario Pension Board

## Management's Responsibility for Financial Reporting

The consolidated financial statements of the Ontario Pension Board ("OPB") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these consolidated financial statements are in accordance with generally accepted accounting principles. Of necessity, many amounts in the financial statements must be based on the best estimates and judgement of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded against unauthorized use or disposition, and proper records maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout the OPB.

The Board of Directors ("Board") is ultimately responsible for the consolidated financial statements of the OPB. The OPB's Audit Committee assists in this responsibility by reviewing the consolidated financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.

Darla S. Sycamore

Leonard Lu, President
February 7, 2003

Darla S. Sycamore, CA, Director, Finance

## Auditors' Report
## To the Directors of the Ontario Pension Board

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and surplus of the Ontario Pension Board (the "OPB") as at December 31, 2002, and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus for the year then ended. These consolidated financial statements are the responsibility of the OPB's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the OPB as at December 31, 2002 and the results of its operations and the changes in its financial position, accrued pension benefits and surplus for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
February 7, 2003

## Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Surplus

| As at December 31 | 2002 | 2001 |
|---|---|---|
| *(in thousands of dollars)* | | |
| Assets | | |
| Investments (Note 4) | $ 11,491,227 | $ 11,949,541 |
| Contributions receivable (Note 7) | 19,973 | 16,981 |
| Capital assets (Note 5) | 1,097 | 805 |
| Total assets | 11,512,297 | 11,967,327 |
| Liabilities | | |
| Income taxes withheld on pension payments | 8,977 | 8,567 |
| Accounts payable and accrued charges | 12,616 | 13,104 |
| Contributions payable | 1,130 | 589 |
| Total liabilities | 22,723 | 22,260 |
| Net Assets Available for Benefits | 11,489,574 | 11,945,067 |
| Actuarial asset value adjustment (Note 8(b)) | 1,729,362 | 1,183,956 |
| Actuarial Value of Net Assets Available for Investments | 13,218,936 | 13,129,023 |
| Accrued Pension Benefits and Surplus | | |
| Accrued pension benefits | 12,186,535 | 11,573,932 |
| Surplus (Note 8(b)) | 1,032,401 | 1,555,091 |
| Total Benefits and Surplus | $ 13,218,936 | $ 13,129,023 |

*See accompanying notes*

Donald D. Weiss
**Director**

Geoffrey H. Collins
**Director**

Ontario Pension Board

## Consolidated Statement of Changes in Net Assets Available for Benefits

| For the year ended December 31 | 2002 | 2001 |
|---|---|---|
| *(in thousands of dollars)* | | |
| Increase in Net Assets | | |
| Net investment income (Note 6) | $ 41,848 | $ 517,672 |
| Contributions (Note 7) | 135,197 | 130,230 |
| Transfers from other plans | 144,478 | 102,975 |
| Increase in net assets | 321,523 | 750,877 |
| Decrease in Net Assets | | |
| Pensions paid | 721,225 | 695,880 |
| Termination payments and transfers | 42,057 | 45,706 |
| Operating expenses (Note 10) | 13,734 | 15,463 |
| Decrease in net assets | 777,016 | 757,049 |
| Net Decrease in Net Assets for the Year | (455,493) | (6,172) |
| Net Assets, at Beginning of Year | 11,945,067 | 11,951,239 |
| Net Assets, at End of Year | $ 11,489,574 | $ 11,945,067 |

*See accompanying notes*

## Consolidated Statement of Changes in Accrued Pension Benefits

| For the year ended December 31<br>*(in thousands of dollars)* | 2002 | 2001 |
|---|---|---|
| Accrued Pension Benefits, at Beginning of Year | $ 11,573,932 | $ 11,212,152 |
| Increase in Accrued Pension Benefits | | |
| Interest on accrued pension benefits | 809,150 | 770,544 |
| Benefits accrued | 399,512 | 332,822 |
| Total increase | 1,208,662 | 1,103,366 |
| Decrease in Accrued Pension Benefits | | |
| Benefits paid | 763,307 | 741,586 |
| Experience | (167,248) | — |
| Total decrease | 596,059 | 741,586 |
| Net Increase in Accrued Pension Benefits | 612,603 | 361,780 |
| Accrued Pension Benefits, at End of Year | $ 12,186,535 | $ 11,573,932 |

## Consolidated Statement of Changes in Surplus

| For the year ended December 31<br>*(in thousands of dollars)* | 2002 | 2001 |
|---|---|---|
| Surplus, at Beginning of Year | $ 1,555,091 | $ 1,660,367 |
| Decrease in net assets available for benefits | (455,493) | (6,172) |
| Change in actuarial asset value adjustment | 545,406 | 262,676 |
| Increase in actuarial value of net assets available for benefits | 89,913 | 256,504 |
| Net Increase in Accrued Pension Benefits | 612,603 | 361,780 |
| Surplus, at End of Year | $ 1,032,401 | $ 1,555,091 |

*See accompanying notes*

# Notes to Consolidated Financial Statements
December 31, 2002

### Note 1. Public Service Pension Act

Effective January 1, 1990, the Province of Ontario (the "Province") enacted the Public Service Pension Act, 1990 (the "PSPAct") to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan (the "PSPPlan") are stated in Schedule 1 to the PSPAct. The Ontario Pension Board (the "OPB") is the administrator of the PSPPlan.

### Note 2. Description of PSPPlan

The following is a brief description of the PSPPlan. For more complete information, reference should be made to the PSPAct.

*a) General* The PSPPlan is a contributory defined benefit pension plan and membership is mandatory for most employees who satisfy the eligibility requirements provided in the PSPAct. Under the PSPPlan, contributions are made by the members and the employers. The PSPPlan is registered with the Financial Services Commission of Ontario and the Canada Customs and Revenue Agency as required (Registration Number 0208777).

*b) Contributions* The PSPPlan is integrated with the Canada Pension Plan ("CPP"). Member contributions are 6.2% of the salary on which contributions to CPP are made and 8% on the balance of salary. The employers contribute matching amounts. The Province, as plan sponsor, had amended the PSPPlan to provide for a contribution reduction of 4% of salary for members and a corresponding reduction for employers. This reduction ended November 30, 2002. For most members, the reduction took effect on August 1, 2000.

Ontario Provincial Police officers ("OPP") are required to contribute to the PSPPlan an additional 2% of salary which is matched by the employer. These additional contributions are used to fund the 50/30 unreduced early retirement provision available to police officers. Under amendment to the PSPPlan, the OPP were not required to contribute this additional amount from August 1, 2000 until March 31, 2002. However, employer contributions continued at the normal level during that period.

*c) Pensions* A pension is payable at age 65 (or at age 60 for some members with pre-1966 pension credits) based on the number of years of credit in the PSPPlan multiplied by 2% of the average salary during the best consecutive 60 month period, less an offset for amounts received under the CPP at age 65. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 (the "Factor 90") or when the member reaches age 60 and has 20 or more years of credit. The Province amended the PSPPlan to provide for an enhanced early retirement opportunity for members of the Plan whose age and service in the Plan equals at least 80 years (the "Factor 80"). The Factor 80 program ended on March 31, 2002. The PSPPlan was again amended to permit those members who are deemed to be surplus by their employer to retire upon attaining the 80 Factor. To qualify certain conditions must be satisfied by both the employer and the member. The program is scheduled to expire March 31, 2004. OPP officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

*d) Death Benefits* Benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or pensioner's estate on the death of a member or a pensioner.

*e) Disability Pensions* Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPPlan. The amount of the disability pension is dependent on years of credit and average salary.

*f) Termination Payments* Members terminating employment before age 55, who are eligible for a deferred pension, may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to another pension plan or to purchase a life annuity.

*g) Escalation of Benefits* Current pensions and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

**Note 3. Summary of Significant Accounting Policies**

*a) Basis of Presentation* The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, and present the position of the PSPPlan as a separate entity independent of the employers and plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

*b) Principles of Consolidation* The accounts of the wholly-owned subsidiary are included on a consolidated basis.

*c) Investments* Traded Investments are stated at fair value based on year-end market prices. Short-term investments are carried at amortized cost which approximates their aggregate fair value. Special Province of Ontario Debentures, which are non-marketable, are recorded at face value (see Note 4). Gains and losses realized on the disposal of investments are credited or charged to investment income. Withholding tax refunds from foreign jurisdictions are recorded on a cash basis. Investment transactions are presented on a trade date basis.

Real estate investments are stated at appraised values as established by independent annual appraisals. Changes in valuation due to appraisal adjustments are included in unrealized gains.

*d) Contributions* Contributions from members and employers which are due to the PSPPlan at year end are recorded as receivable. Transfers and purchases of prior service are recorded after cash is received and the case is processed.

*e) Pensions* Payments of pensions, refunds and transfers are recorded in the year in which they are made.

*f) Capital Assets* Capital assets are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

| | |
|---|---|
| Computer equipment | 3 years |
| Leasehold improvements | Remaining term of lease |
| Furniture and fixtures | 10 years |

*g) Foreign Currency Translation* Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions.

The fair value of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year end.

**Note 4. Investments**

| | 2002 | | 2001 | |
|---|---|---|---|---|
| As of December 31 | Fair Value | Cost | Fair Value | Cost |
| *(in thousands of dollars)* | | | | |
| Cash and short-term investments | | | | |
| Canadian | $ 546,409 | $ 545,803 | $ 587,106 | $ 586,356 |
| Foreign | 64,619 | 63,104 | 77,287 | 76,964 |
| | 611,028 | 608,907 | 664,393 | 663,320 |
| Fixed Income | | | | |
| Special Province of Ontario Debentures | 3,233,173 | 3,233,173 | 3,363,221 | 3,363,221 |
| Bonds | | | | |
| Canadian | 1,848,615 | 1,772,875 | 1,817,694 | 1,781,135 |
| Foreign | 291,894 | 237,556 | 295,190 | 283,082 |
| | 5,373,682 | 5,243,604 | 5,476,105 | 5,427,438 |
| Equities | | | | |
| Canadian | 1,527,583 | 1,381,518 | 1,598,301 | 1,453,840 |
| Foreign | 2,566,451 | 2,584,346 | 2,986,158 | 2,554,353 |
| | 4,094,034 | 3,965,864 | 4,584,459 | 4,008,193 |
| Real estate | 1,151,019 | 1,067,546 | 955,699 | 886,453 |
| Investments | 11,229,763 | 10,885,921 | 11,680,656 | 10,985,404 |
| Accrued income | 261,464 | 261,464 | 268,885 | 268,885 |
| Total | $ 11,491,227 | $ 11,147,385 | $ 11,949,541 | $ 11,254,289 |

The Special Province of Ontario Debentures, which are non-marketable, are recorded at their aggregate face value of $3.23 billion. By discounting cash flows based on year-end market yields of comparable bonds, a value of $4.67 billion could be determined.

There are currently 16 Special Province of Ontario Debentures maturing over the next 12 years with a weighted average interest rate of 11.86%.

As Administrator of the Fund, the OPB has adopted a Statement of Investment Policies and Procedures. This Statement provides investment objectives, performance expectations and guidelines for the management of the Fund. To reduce risk and enhance returns, equity and fixed income investments may be allocated to different asset classes. The proportion allocated at any point in time is determined based on an assessment of economic and financial market conditions.

To provide the ability to respond to fundamental changes, the Fund's asset mix is maintained within the following ranges:

| | |
|---|---|
| Canadian equity | 10% to 20% |
| Non-Canadian equity | 20% to 30% |
| Real estate | 5% to 15% |
| Total equity and real estate | 35% to 65% |
| Bonds | 35% to 65% |
| Short term | 0% to 10% |
| Total fixed income | 35% to 65% |

The Fund's long-term asset mix policy is as follows:

| | |
|---|---|
| Equity | 50% |
| Fixed income | 50% |

This policy was adopted after evaluating the risk characteristics of alternative policies, considering the liquidity requirements of the Fund and the economic assumptions employed in the PSPPlan's actuarial valuation.

The OPB invests in high-grade bonds and common shares. The fair value of foreign investments will fluctuate with moves in exchange rates.

The carrying value of the real estate assets was increased by $14 million to reflect the results of an independent appraisal conducted as at December 31, 2002.

See the schedules of Fixed Income Maturities and Investments Over $35 Million Market Value for further information.

**Note 5. Capital Assets**

| As at December 31 | Cost | Accumulated Amortization | 2002 Net Book Value | 2001 Net Book Value |
|---|---|---|---|---|
| Computer equipment | $ 1,348 | $ 818 | $ 530 | $ 316 |
| Leasehold improvements | 1,478 | 1,148 | 330 | 316 |
| Furniture and fixtures | 758 | 521 | 237 | 173 |
| Total capital assets | $ 3,584 | $ 2,487 | $ 1,097 | $ 805 |

Ontario Pension Board

### Note 6. Net Investment Income

| For the year ended December 31<br>*(in thousands of dollars)* | 2002 | 2001 |
|---|---|---|
| Interest income | | |
| Cash and short-term investments | | |
| Canadian | $ 12,963 | $ 25,403 |
| Foreign | 902 | 4,066 |
| Fixed income | | |
| Special Province of Ontario Debentures | 389,972 | 401,913 |
| Bonds | | |
| Canadian | 114,840 | 114,156 |
| Foreign | 15,613 | 19,383 |
| Total interest income | 534,290 | 564,921 |
| Dividend income | | |
| Canadian | 30,402 | 31,805 |
| Foreign | 56,734 | 53,849 |
| Total dividend income | 87,136 | 85,654 |
| Real estate income | 89,233 | 74,610 |
| Realized gain (loss) | (303,837) | 88,599 |
| Unrealized (loss) | (351,419) | (284,548) |
| Total investment income | 55,403 | 529,236 |
| Investment management and custodial fees | 13,555 | 11,564 |
| Net investment income | $ 41,848 | $ 517,672 |

## Note 7. Contributions

| For the year ended December 31<br>*(in thousands of dollars)* | 2002 | 2001 |
|---|---|---|
| Members | | |
| Current service | $ 60,753 | $ 49,322 |
| Prior service | 12,956 | 14,113 |
| | 73,709 | 63,435 |
| Employers | | |
| Current service | 55,391 | 54,462 |
| Prior service | 6,097 | 12,333 |
| | 61,488 | 66,795 |
| Total contributions | $ 135,197 | $ 130,230 |

The contribution requirements are set out in the PSPAct and summarized in Note 2.

Contributions receivable represent members' and employers' contributions due as well as estimated receivables for members receiving benefits on LTIP and for the matching portion of buybacks billed to the employer.

## Note 8. Accrued Pension Benefits

*a) Funding Basis* The funding of the PSPPlan is based on a method of valuation required under the PSPAct. An actuarial valuation of the PSPPlan, prepared on a funding basis, was completed by the OPB's actuaries, Mercer Human Resource Consulting ("Mercer") as at December 31, 2001. This valuation disclosed an actuarial surplus of $408 million based on an actuarial liability of $12.693 billion and an actuarial value of assets of $13.101 billion at the end of 2001.

The Pension Benefits Act (Ontario) and the Income Tax Act (Canada) require an actuarial valuation for funding purposes to be performed at least every three years.

*b) Accounting Basis* The consolidated financial statements include the actuarial value of net assets and accrued pension benefits as at December 31, 2002 and 2001, which are based on actuarial calculations as of these dates in accordance with the recommendations of The Canadian Institute of Chartered Accountants. These standards require the obligation for accrued pension benefits be calculated using the projected benefit method pro-rated on services and management's best estimate assumptions. The key assumptions used for this estimation are long-term and are reviewed annually in the light of economic conditions. For 2002 and 2001, the following estimate assumptions were used:

| | 2002 | 2001 |
|---|---|---|
| Interest | 7.0% | 7.0% |
| Inflation | 3.0% | 3.0% |
| Real rate of return | 4.0% | 4.0% |
| Salary | 4.0% +promotional scale | 4.0% +promotional scale |

The actuarial asset value adjustment of $1,729 million is comprised of a fair value adjustment for the Special Province of Ontario Debentures and $494 million of unrealized net losses related to marketable securities (2001–$4 million of unrealized gains) which are amortized over a four-year period for actuarial purposes.

### Note 9. Ontario Provincial Police Force Early Retirement Benefit

Under the PSPPlan, the OPB is required to report annually on the early retirement benefit provided by the PSPPlan to police force officers who are employed by the Ontario Provincial Police (OPP). This early retirement benefit is available to OPP officers who are 50 years of age and have 30 years of credit in the PSPPlan. OPP police officers contribute 2% of their salary to the PSPPlan in addition to the regular contribution amount. This contribution is matched by the employer.

The liability in respect of OPP police force members who qualify and elect to retire under the Factor 80 provision is not reported under the OPP early retirement benefit. When the Province's program expires, the liability for all OPP officers who attain 50 years of age and have 30 years of credit in the PSPPlan will be reported under the OPP police force early retirement benefit.

The position of the OPP early retirement benefit was included in the actuarial valuation as at December 31, 2001. The value of projected future contributions and benefits included in the December 31, 2001 actuarial valuation was updated to reflect actual contributions received and benefit payments made during the period to December 31, 2002. This method produces a reasonable estimate of the financial position of this benefit according to the OPB's actuaries.

The additional obligation and assets related to the OPP early retirement benefit as at December 31, 2002 were as follows:

*(in thousands of dollars)*

| | | |
|---|---|---|
| Assets allocated to payment of OPP early retirement benefit | $ | 93,605 |
| Actuarial value of future additional contributions from OPP officers and employer | | 83,310 |
| | | 176,915 |
| Actuarial value of future OPP early retirement benefit | | 183,688 |
| Actuarial value of future OPP early retirement benefit in excess of assets and actuarial value of future additional contributions available | $ | (6,773) |

Ontario Pension Board

## Note 10. Operating Expenses

| For the year ended December 31 | | 2002 | | 2001 |
|---|---|---|---|---|
| *(in thousands of dollars)* | | | | |
| Salaries and benefits | $ | 7,028 | $ | 7,310 |
| Agency services | | 344 | | 1,038 |
| Office premises and operations | | 2,420 | | 1,992 |
| Computer and professional services | | 2,880 | | 4,030 |
| Depreciation and amortization | | 332 | | 337 |
| Communications | | 480 | | 544 |
| Audit | | 114 | | 62 |
| Travel | | 86 | | 68 |
| Publications, registration and filing fees | | 50 | | 82 |
| Total operating expenses | $ | 13,734 | $ | 15,463 |

## Note 11. Executive Compensation

The compensation table represents disclosure of the compensation and taxable benefits earned in the year by the CEO and the four other most highly compensated executives.

| | | Compensation | | Taxable Benefits |
|---|---|---|---|---|
| Donald D. Weiss, Chairman & CEO | $ | 207,795 | $ | 330 |
| Leonard Lu, President | | 273,993 | | 450 |
| Mark J. Fuller, Executive Vice President | | 248,674 | | 418 |
| Robert F. Kay, Senior Vice President, Investments | | 218,195 | | 370 |
| Linda J. Bowden, Vice President, Corporate Services | | 154,160 | | 285 |

Ontario Pension Board

## Schedule of Fixed Income Maturities

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| As of December 31 | | Fair Value | Effective Yield% | | Fair Value | Effective Yield% |
| *(in thousands of dollars)* | | | | | | |
| Cash and short-term investments | | | | | | |
| Canadian: | | | | | | |
| 0–1 year | $ | 546,409 | 2.56–2.79 | $ | 587,106 | 1.91–2.16 |
| Foreign: | | | | | | |
| 0–1 year | | 64,619 | 1.12–3.25 | | 77,287 | 1.65 |
| | $ | 611,028 | | $ | 664,393 | |
| Special Province of Ontario Debentures | | | | | | |
| 0–1 year | $ | 100,898 | 9.51–14.65 | $ | 96,416 | 9.81–16.95 |
| 1–5 years | | 739,773 | 9.82–15.38 | | 655,941 | 9.51–14.65 |
| 5–10 years | | 1,531,886 | 10.38–13.33 | | 1,375,769 | 11.55–15.38 |
| > 10 years | | 860,616 | 11.10–11.19 | | 1,235,095 | 10.38–11.19 |
| | | 3,233,173 | | | 3,363,221 | |
| Bonds | | | | | | |
| Canadian: | | | | | | |
| 0–1 year | | 142,862 | 5.17–10.56 | | 50,427 | 5.38–9.64 |
| 1–5 years | | 317,902 | 3.02–9.10 | | 487,705 | 4.74–9.91 |
| 5–10 years | | 852,921 | 4.36–7.72 | | 832,695 | 4.78–8.58 |
| > 10 years | | 415,095 | 3.68–7.99 | | 336,081 | 5.32–7.90 |
| PH&N Bond Fund: 1–47 years | | 119,835 | 4.91 | | 110,786 | 5.55 |
| | | 1,848,615 | | | 1,817,694 | |
| Foreign: | | | | | | |
| 0–1 year | | 30,939 | 4.47–7.93 | | 4,826 | 8.14 |
| 1–5 years | | 89,513 | 4.30–7.41 | | 65,255 | 4.48–7.72 |
| 5–10 years | | 117,896 | 3.74–5.71 | | 184,596 | 3.98–7.38 |
| > 10 years | | 53,546 | 5.07–5.47 | | 40,513 | 5.45–5.90 |
| | | 291,894 | | | 295,190 | |
| | $ | 5,373,682 | | $ | 5,476,105 | |

Ontario Pension Board

## Investments Over $35 Million Market Value*

| As at December 31<br>*(in thousands of dollars)* | Maturities | Coupon % | Market Value* |
|---|---|---|---|
| Cash and Short-term Investments | | | |
| Canadian | | | |
| Government of Canada | | | $ 330,371 |
| Fixed Income | | | |
| Special Province of Ontario Debentures | 2003–2014 | 9.51–15.38 | 3,233,173 |
| Canadian | | | |
| Government of Canada | 2003–2029 | 4.25–10.25 | 501,262 |
| Province of Ontario | 2003–2029 | 5.70–9.50 | 173,192 |
| Phillips Hager & North High Grade Corporate Bond Fund | 2003–2049 | 4.60–11.80 | 119,835 |
| Woodbine Entertainment Group | 2011 | 8.58 | 57,409 |
| NHA Mortgage Backed Securities | 2008–2011 | 5.45–5.50 | 54,995 |
| Royal Bank of Canada | 2008–2016 | 5.45–7.29 | 48,955 |
| Sun Life Assurance Company | 2011–2028 | 5.80–6.87 | 44,911 |
| Toronto-Dominion Bank | 2009–2012 | 6.00–7.60 | 43,178 |
| Manulife Financial Corporation | 2011–2016 | 5.70–6.70 | 41,916 |
| Province of British Columbia | 2008–2012 | 5.75–6.38 | 36,075 |
| Canada Housing Trust | 2007–2008 | 4.40–4.75 | 35,339 |
| Foreign | | | |
| Government of France | 2005–2025 | 4.00–6.00 | 129,419 |
| Germany Federal Republic Bonds | 2003–2028 | 3.75–5.63 | 93,501 |
| UK Treasury | 2008 | 5.00 | 40,678 |
| Real Estate | | | 1,151,524 |

*Except for Special Province of Ontario Debentures

Ontario Pension Board

| *(in thousands)* | Shares | Market Value |
|---|---|---|
| Equities | | |
| Canadian | | |
| Royal Bank of Canada | 1,894 | $ 109,556 |
| Encana Corp | 1,787 | 87,174 |
| Toronto-Dominion Bank | 2,144 | 72,921 |
| Canadian Imperial Bank of Commerce | 1,590 | 69,184 |
| Bank of Montreal | 1,413 | 58,916 |
| The Bank of Nova Scotia | 1,081 | 56,941 |
| Manulife Financial Corporation | 1,604 | 55,162 |
| Sceptre Small Cap Section Pooled Fund | 162 | 54,703 |
| Suncor Energy | 1,961 | 48,442 |
| BCE Inc. | 1,689 | 48,128 |
| Canadian National Railway | 673 | 43,946 |
| Petro-Canada | 869 | 42,503 |
| Power Financial Corporation | 1,127 | 40,896 |
| Transcanada Pipelines Ltd | 1,688 | 38,694 |
| Alcan Inc | 812 | 37,615 |
| Foreign | | |
| U.S. | | |
| Pfizer Inc. | 1,189 | 57,431 |
| Merck & Co Inc. | 578 | 51,719 |
| Philip Morris | 756 | 48,425 |
| Microsoft Corporation | 575 | 46,947 |
| Exxon Mobil Corp | 798 | 44,075 |
| General Electric Company | 1,013 | 38,953 |
| Citigroup Inc. | 669 | 37,220 |
| Fannie Mae | 359 | 36,474 |
| France | | |
| Total Fina Elf | 156 | 35,309 |

Ontario Pension Board

## Actuaries' Opinion
## To the Directors of the Ontario Pension Board

We have prepared an actuarial valuation on a funding basis of the Public Service Pension Plan (the "PSPPlan") as of December 31, 2001 as described in Note 8(a) of these consolidated financial statements.

We hereby certify that, in our opinion:

- the data provided to us by the Ontario Pension Board (OPB) are sufficient and reliable for the purposes of the December 31, 2001 valuation;
- the actuarial assumptions used are, in aggregate, appropriate for the purposes of a valuation for funding purposes of the PSPPlan;
- the methods employed in the valuation are appropriate for the purposes of the valuation and are consistent with the requirements of the Pension Benefits Act, the Public Service Pension Act, and the Income Tax Act (Canada); and
- the valuation was prepared and our opinion given in accordance with accepted actuarial practice.

Using the same data as provided by the OPB for the funding basis valuation, we also prepared an estimate of the assets and liabilities on an actuarial basis following the accounting methodology required by The Canadian Institute of Chartered Accountants Handbook, Section 4100, as disclosed in Note 8(b). These amounts are set out in the consolidated statement of net assets available for benefits and accrued pension benefits and surplus. The valuation for accounting purposes was prepared in accordance with accepted actuarial practice and is based on assumptions set out in Note 8(b), which in our opinion are in accordance with accepted actuarial practices.

Michael Banks

Michael D. Banks, F.I.A., F.C.I.A. Amy Pun, F.S.A., F.C.I.A.

MERCER HUMAN RESOURCE CONSULTING
February 7, 2003

**Ontario Pension Board**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| BOWDEN | LINDA | Vice President, Corporate Services | $154,160.17 | $284.82 |
| EVAGELOU | ANTONIA | Vice President, Plan Administration | $143,240.51 | $275.67 |
| FARRUGIA | JOE | Director, Planning & Information Tech. | $132,851.57 | $251.01 |
| FULLER | MARK | Executive VP, Gen. Counsel & Secretary | $248,673.71 | $418.17 |
| KAY | ROBERT | Sr. Vice President Investments | $218,194.53 | $369.96 |
| LU | LEONARD | President | $273,993.16 | $450.27 |
| SHENA | PETER | Vice President, Policy & Research | $150,963.88 | $279.78 |
| SYCAMORE | DARLA | Treasurer & Director, Treasury & Finance | $124,111.88 | $237.03 |
| WEISS | DONALD | Chairman & CEO | $207,795.26 | $329.79 |

# Provincial Judges Pension Fund

## *Auditor's Report*

To the Provincial Judges Pension Board
and to the Minister of Finance

I have audited the statement of changes in fund balance of the Provincial Judges Pension Fund for the year ended March 31, 2003. This financial statement is the responsibility of the Fund's management. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, this financial statement presents fairly, in all material respects, the financial position of the Fund as at March 31, 2003 and the results of its operations for the year then ended in accordance with the accounting policy described in note 2 to the financial statement.

Toronto, Ontario
May 2, 2003

J.R. McCarter, CA
Assistant Provincial Auditor

## PROVINCIAL JUDGES PENSION FUND

### Statement of Changes in Fund Balance
### For the Year Ended March 31, 2003

| | 2003<br>($ 000) | 2002<br>($ 000) |
|---|---|---|
| **Deposits** | | |
| Contributions | | |
| Participants | 2,900 | 2,827 |
| Province of Ontario (Note 4) | 10,700 | 10,700 |
| Interest earned | 26,095 | 24,567 |
| | 39,695 | 38,094 |
| **Payments** | | |
| Pension payments and survivor allowances | 15,171 | 14,844 |
| | 15,171 | 14,844 |
| **Net increase in the Fund** | 24,524 | 23,250 |
| **Fund Balance on deposit with the Minister of Finance** | | |
| Beginning of year | 300,712 | 277,462 |
| End of year | 325,236 | 300,712 |

**Contingent liability** (Note 5)

See accompanying notes to financial statement

Approved on behalf of the Board:

Chair

## PROVINCIAL JUDGES PENSION FUND

### Notes to Financial Statement
March 31, 2003

### 1. DESCRIPTION OF THE FUND

The Provincial Judges Pension Fund (the Fund) is administered by the Provincial Judges Pension Board as designated by Ontario Regulation 67/92, as amended, of the *Courts of Justice Act*. The following brief description of the Fund is provided for general purposes only. For more complete information, reference should be made to the Regulation.

#### (a) General

The purpose of the Fund is to provide pension payments to retired Provincial Judges and Masters who are members of the Plan or survivor allowances to the dependents of these Judges and Masters.

#### (b) Funding Policy

Participants are required to contribute 7% of their salary to the earlier occurrence of meeting their basic service requirement or attaining age 70 years.

The contribution required of the Province is determined by an actuarial valuation as described in note 4.

#### (c) Pension Payments

A pension payment is available based on the age and the number of years of full-time service for which the participant has credit upon ceasing to hold office and is based on the salary of a full-time judge of the highest judicial rank held by the participant while in office. The participant is entitled to these payments during his/her lifetime.

#### (d) Disability Pension Payments

A full pension is available at age 65 for participants with a minimum of five years of full-time service who are unable to serve in office due to injury or chronic illness.

#### (e) Survivor Allowances

A survivor allowance equal to 60% of the pension payment is paid to the spouse during the spouse's lifetime or to children who meet the age, custody, education or disability criteria defined in section 22 of the Regulation.

#### (f) Death Refunds

A death refund is payable to the personal representative of a participant where there is no further entitlement to a survivor allowance. The amount of the refund is equal to the participant's contributions in the Fund plus interest, less entitlements already paid out.

#### (g) Withdrawal Refunds

Upon ceasing to hold office for a reason other than death, participants not eligible to receive pension payments are entitled to receive a refund of their contributions to the Fund plus interest.

## PROVINCIAL JUDGES PENSION FUND

**Notes to Financial Statement**
**March 31, 2003**

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### 1. DESCRIPTION OF THE FUND (CONTINUED)

#### (h) Interest Revenue

There are two components to the interest revenue calculation. Firstly, all new money, being the excess of of contributions over payments each fiscal year, earns interest at a fixed rate for 25 years which is not less than the weighted average rate on long term securities issued or guaranteed by the Province of Ontario during that fiscal year. For the 2003 fiscal year this rate was 5.4% (2002 – 6.57%) but no interest was credited as the total monthly payments exceeded the total monthly contributions. The second and largest component is the interest accumulating on opening fund balance. This amount is a weighted average of the interest rates applied since inception which for the current fiscal year was 8.68% (2002 – 8.85%).

#### (i) Fund Status

The Fund is not subject to the reporting requirements under the *Pension Benefits Act* and Regulations. However, the Fund has the status of a registered pension plan for income tax purposes.

#### (j) Escalation of Entitlements

Entitlements are adjusted annually based on changes in the Canadian Aggregate Industrial Wage as published by Statistics Canada, subject to a maximum of 7% in any one year.

#### (k) Pending Changes to the Fund

Amendments to the *Income Tax Act (Canada) (ITA)* limit the pension benefit payable from the Fund for post 1991 service. Cabinet has approved that benefits above the ITA limit will be provided through a separate supplementary account in the Consolidated Revenue Fund.

The terms of the Fund are being revised to comply with the requirements under the ITA, and an Order-in-Council will be required to establish the supplementary account. Canada Customs and Revenue Agency is aware of the status of the supplementary account. To date, the Fund has paid out approximately $16,220,704 which should have been paid from the supplementary account. Once the account is established, there will be a reconciliation between the account and the Fund, both of which are to be held within the Consolidated Revenue Fund of the Province of Ontario.

### 2. SIGNIFICANT ACCOUNTING POLICY

The financial statement has been prepared on a cash basis of accounting because section 34 of Ontario Regulation 67/92 under the Courts of Justice Act states that the Fund shall consist of contributions and money paid, transferred or credited to the Fund, less money paid out.

### 3. ADMINISTRATIVE EXPENSES

Administrative expenses are paid by the Province of Ontario.

## PROVINCIAL JUDGES PENSION FUND

### Notes to Financial Statement
March 31, 2003

### 4. LIABILITY FOR FUTURE BENEFITS

The Province is responsible for the unfunded liabilities of the Provincial Judges Pension Plan and fund these liabilities in amounts recommended by the actuarial valuation of the Plan. The most recent annual actuarial valuation of the Plan as at March 31, 2000 disclosed that the present value of required future government contributions to fund the unfunded liability was $110,427,000 and recommended the Province contribute $10,382,000 in fiscal 2001 towards this total. In each of fiscal years 2002 and 2003, the Province contributed $10,700,000, which was based on the fiscal 2001 contribution adjusted for scheduled salary changes in fiscal 2002. It is Management Board Secretariat's opinion that before the next valuation is done, this interim contribution amount is adequate as there has been no substantial changes made to the Plan since the actuarial valuation as at March 31, 2000 was done.

### 5. CONTINGENT LIABILITY

The Ontario Conference of Judges commenced an action against the provincial government over its refusal to implement the recommendations of the 1998 Triennial Provincial Judges Remuneration Commission for pension benefit improvement. This action was dismissed. The Ontario Conference of Judges filed a motion for leave to appeal.

## OFFICE OF THE PUBLIC GUARDIAN AND TRUSTEE

### Management's Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented in the financial statements. The financial statements have been prepared by management in accordance with generally accepted accounting principles, and, where appropriate, include amounts based on Management's best estimates and judgements.

The Office of the Public Guardian and Trustee is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and that the assets were safeguarded. Internal audits are conducted to assess management systems and practices and reports are issued to the Public Guardian and Trustee and her management committee.

The financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the auditor's examination and opinion.

Louise Stratford
Public Guardian and Trustee

Sharon Yetter
Chief Financial Officer

July 31, 2003

### *Auditor's Report*

To the Public Guardian and Trustee for the Province of Ontario
and to the Attorney General

I have audited the balance sheet of the Public Guardian and Trustee for the Province of Ontario as at March 31, 2003 and the statements of estates and trusts fund balances and administration fund balances, revenue and expenditures – unappropriated fund, revenue and expenditures – special projects fund, cash flows – administration fund, revenue and expenditures – estates and trusts and cash flows – estates and trusts for the year then ended. These financial statements are the responsibility of the Public Guardian and Trustee's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Public Guardian and Trustee for the Province of Ontario as at March 31, 2003 and the results of its operations – unappropriated fund, operations – special projects fund, operations – estates and trusts and its cash flows – administration fund and cash flows – estates and trusts for the year then ended in accordance with the accounting policies as explained in the Summary of Significant Accounting Policies.

Toronto, Ontario
June 11, 2003

J.R. McCarter, CA
Assistant Provincial Auditor

## The Public Guardian and Trustee for the Province of Ontario

Balance Sheet
(in thousands of dollars)

March 31, 2003

| | Estates and Trusts | | Administration Fund | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| **Assets** | | | | |
| **Cash** | **$ 122** | $ 1,079 | **$ 165** | $ 744 |
| **Accounts receivable** | **3,518** | 4,113 | **1,637** | 2,179 |
| **Bonds and other debt issues** | **18,395** | 21,249 | **-** | - |
| **Funds invested** (Schedule A) | **819,188** | 780,061 | **5,152** | 12,196 |
| **Diversified fund** (Schedule B) | **60,478** | 72,872 | **46,184** | 50,509 |
| **Other assets** (Schedule C) | **97,128** | 85,565 | **-** | - |
| | **$ 998,829** | $ 964,939 | **$ 53,138** | $ 65,628 |
| **Liabilities and Fund Balances** | | | | |
| **Accounts payable** | **1,833** | 1,801 | **3,593** | 4,522 |
| **Deferred interest provision** (Note 5) | **-** | - | **-** | 8,100 |
| | **1,833** | 1,801 | **3,593** | 12,622 |
| **Fund balances** | **996,996** | 963,138 | **49,545** | 53,006 |
| | **$ 998,829** | $ 964,939 | **$ 53,138** | $ 65,628 |

Contingencies (Note 6)

On behalf of The Public Guardian and Trustee for the Province of Ontario

Public Guardian and Trustee

Chief Financial Officer

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# The Public Guardian and Trustee for the Province of Ontario

## Statement of Estates and Trusts Fund Balances

(in thousands of dollars)

| March 31 | | 2003 | | 2002 |
|---|---|---|---|---|
| Minors | $ | **365,505** | $ | 366,081 |
| Client estates | | **351,226** | | 337,827 |
| Litigants | | **154,668** | | 132,956 |
| Crown estates (Note 1) | | **76,687** | | 77,671 |
| Cemetery trusts | | **19,497** | | 18,827 |
| Executorship estates | | **12,623** | | 14,215 |
| Unadministered estates | | **6,291** | | 5,773 |
| Forfeited corporate assets | | **4,622** | | 4,202 |
| Corporate trusts | | **3,062** | | 3,060 |
| Land titles | | **2,815** | | 2,526 |
| | $ | **996,996** | $ | 963,138 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## The Public Guardian and Trustee for the Province of Ontario

### Statement of Administration Fund Balances

(in thousands of dollars)

For the year ended March 31, 2003

| | Assurance Fund | Special Projects Fund | Litigation Reserve Fund | Allowance for Doubtful Accounts Fund | Capacity Assessment Fund | Unappropriated Fund | Total 2003 | Total 2002 |
|---|---|---|---|---|---|---|---|---|
| **Balance**, beginning of year | $ 200 | $ 1,547 | $ 2,000 | $ 100 | $ 100 | $ 49,059 | $ 53,006 | $ 51,529 |
| **Excess (deficiency) of revenue over expenditures** | - | (4,614) | - | - | - | 1,675 | (2,939) | 2,077 |
| **Increased assurance fund provision** | 1,200 | | | | | (1,200) | - | |
| **Claims during the year** | (334) | - | (171) | - | (17) | - | (522) | (600) |
| **Transfers** | | | | | | | | |
| Reimbursement of claims | 334 | - | 171 | - | 17 | (522) | - | - |
| **Balance**, end of year | $ 1,400 | $ (3,067) | $ 2,000 | $ 100 | $ 100 | $ 49,012 | $ 49,545 | $ 53,006 |

The accompanying summary of significant accounting policies and notes are an intergral part of these financial statements

# The Public Guardian and Trustee for the Province of Ontario

## Statement of Revenue and Expenditures - Unappropriated Fund

(in thousands of dollars)

| For the year ended March 31 | 2003 | 2002 |
|---|---|---|
| **Revenue** | | |
| Fees collected | | |
| Client estates | $ 10,667 | $ 10,095 |
| Minors | 3,016 | 2,701 |
| Crown estates | 2,107 | 1,761 |
| Litigants | 898 | 719 |
| Executorship estates | 558 | 289 |
| Charity trusts | 146 | 156 |
| Cemetery trusts | 176 | 166 |
| Forfeited corporate assets/corporate trusts | 13 | 33 |
| Probable escheats | - | 5 |
| | 17,581 | 15,925 |
| Income from funds invested, net (Schedule D) | 1,810 | 969 |
| Bank interest, net of charges | (390) | (360) |
| Transfer to Special Projects Fund | (1,420) | - |
| | 17,581 | 16,534 |
| **Expenditures** | | |
| Salaries and wages | 18,587 | 17,823 |
| Employee Benefits (Note 3) | 3,262 | 3,053 |
| Services | 2,539 | 2,295 |
| Transportation and communication | 1,412 | 1,421 |
| Supplies and equipment | 634 | 288 |
| | 26,434 | 24,880 |
| Less: Amount recovered from the Ministry of the Attorney General | (10,528) | (8,876) |
| | 15,906 | 16,004 |
| **Excess of revenue over expenditures** | $ 1,675 | $ 530 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# The Public Guardian and Trustee for the Province of Ontario

## Statement of Revenue and Expenditures - Special Projects Fund

(in thousands of dollars)

| For the year ended March 31 | 2003 | 2002 |
|---|---|---|
| **Revenue** | | |
| Income from investments in diversified fund | $ 1,254 | $ 1,232 |
| Unrealized appreciation (depreciation) of diversified fund | (5,994) | 1,311 |
| Net Income from funds invested | 1,420 | - |
| | (3,320) | 2,543 |
| **Expenditures** | | |
| Salaries and wages | 175 | 300 |
| Services | 1,119 | 696 |
| | 1,294 | 996 |
| **Excess (deficiency) of revenue over expenditures** | $ (4,614) | $ 1,547 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# The Public Guardian and Trustee
# for the Province of Ontario
## Statement of Cash Flows - Administration Fund
(in thousands of dollars)

| For the year ended March 31 | | 2003 | | 2002 |
|---|---|---|---|---|
| **Cash was provided by (used in)** | | | | |
| **Operating activities** | | | | |
| Excess (deficiency) of revenue over expenditures | $ | (2,939) | $ | 2,077 |
| Adjustments to reconcile excess of revenue over expenditures to net cash provided by operating activities | | | | |
| (Gain) Loss on sale of investments | | (987) | | 1,519 |
| Unrealized (appreciation) depreciation of diversified fund | | 5,994 | | (1,311) |
| Claims during the year | | (522) | | (600) |
| Accounts receivable | | 542 | | 516 |
| Accounts payable | | (929) | | 784 |
| Deferred interest provision | | (8,100) | | 500 |
| | | (6,941) | | 3,485 |
| **Investing activities** | | | | |
| Redemptions (Purchases) of investments, net | | 6,362 | | (2,851) |
| **Increase (decrease) in cash during the year** | | (579) | | 634 |
| **Cash**, beginning of the year | | 744 | | 110 |
| **Cash**, end of the year | $ | 165 | $ | 744 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# The Public Guardian and Trustee for the Province of Ontario

## Statement of Revenue and Expenditures - Estates and Trusts

(in thousands of dollars)

| For the year ended March 31 | 2003 | 2002<br>(Unaudited) |
|---|---|---|
| **Revenue** | | |
| Pension Income | $ 53,912 | $ 48,395 |
| Investment Income | 51,505 | 48,170 |
| Social benefits | 42,156 | 40,378 |
| Other Income | 17,305 | 15,887 |
| | 164,878 | 152,830 |
| **Expenditures** | | |
| Accomodation | 66,871 | 64,406 |
| PGT Fees(net) | 19,778 | 17,620 |
| Allowances | 20,616 | 18,337 |
| Living | 7,073 | 6,554 |
| Real Estate | 5,293 | 2,778 |
| Income Taxes | 5,055 | 4,405 |
| Funeral | 4,489 | 3,926 |
| Medical | 3,091 | 2,771 |
| Utilities | 1,574 | 1,307 |
| Insurance | 543 | 412 |
| Other | 8,855 | 7,203 |
| | 143,238 | 129,719 |
| **Excess of revenue over expenditures** | $ 21,640 | $ 23,111 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## The Public Guardian and Trustee for the Province of Ontario

### Statement of Cash Flows - Estates and Trusts

(in thousands of dollars)

| For the year ended March 31 | 2003 | 2002<br>(unaudited) |
|---|---|---|
| **Cash was provided by (used in)** | | |
| **Operating activities** | | |
| Excess of revenue over expenditures | $ 21,640 | $ 23,111 |
| Adjustments to reconcile excess of revenue over expenditures to net cash provided by operating activities | | |
| Unrealized capital (gains) losses of diversified fund investments | 8,391 | (1,559) |
| Accounts Receivable | 595 | (640) |
| Accounts Payable | 32 | (591) |
| Other Assets | (11,563) | 1,253 |
| | 19,095 | 21,574 |
| **Investing activities** | | |
| Disposal of client's bonds and other debt issues | 2,854 | 3,447 |
| Net purchase of funds invested | (39,127) | (4,046) |
| Net client capital contributions (distributions) | 12,218 | (11,428) |
| Diversified Fund investments | | |
| Net redemptions (purchase) | 4,003 | (7,167) |
| | (20,052) | (19,194) |
| **Increase (decrease) in cash during the year** | (957) | 2,380 |
| **Cash (bank indebtedness),** beginning of the year | 1,079 | (1,301) |
| **Cash,** end of the year | $ 122 | $ 1,079 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# The Public Guardian and Trustee for the Province of Ontario

## Summary of Significant Accounting Policies

March 31, 2003

**Nature of Operations**

The Public Guardian and Trustee for the Province of Ontario ("The Public Guardian and Trustee") performs duties under a number of statutes with the following main responsibilities:

- the management of estates of incapable adults
- the administration of estates of persons who have died in Ontario intestate and without next-of-kin
- the gathering of assets on behalf of the Crown under the Escheats Act when there is no known owner of those assets or the owner is a corporation no longer in existence
- the management of funds, mortgages and securities paid into or lodged with the Accountant of the Superior Court of Justice on behalf of minors and litigants
- a general supervisory role over charitable property

**Basis of Accounting**

The Organization follows Canadian generally accepted accounting principles except for the following:

(i) Capital assets – Items of a capital nature purchased by the Ministry of the Attorney General and the Public Guardian and Trustee are not capitalized and are charged to the Public Guardian and Trustee's expenditures in the year of acquisition.

(ii) Other assets of Estates and Trusts – Other assets held on behalf of clients are accounted for on a market value basis as explained in the significant accounting policies relating to these items.

**Estates and Trusts**

Estates and Trusts represent accounts over which The Public Guardian and Trustee acts as guardian or trustee under the *Substitute Decisions Act, the Public Guardian and Trustee Act, the Crown Administration of Estates Act* and various other statutes.

**Administration Fund**

The Administration Fund is the operating account of The Public Guardian and Trustee. It is used to accumulate fees charged to each estate and trust for services, as prescribed by the fee schedule created pursuant to *The Public Guardian and Trustee Act* and to pay operating expenses.

Cash balances in the Administration Fund which are not required for operating purposes are invested along with the cash funds of Estates and Trusts. The Administration Fund receives the net interest income of these investment activities, after interest is distributed on the funds of Estates and Trusts in accordance with the interest rates prescribed in accordance with the Act.

Funds appropriated for specific purposes are identified below.

# The Public Guardian and Trustee for the Province of Ontario

## Summary of Significant Accounting Policies

March 31, 2003

**Assurance Fund**

The *Public Guardian and Trustee Act* and the regulations under the Act provide that an Assurance Fund shall be established to meet losses for which The Public Guardian and Trustee might become liable.

During the year the Fund was reimbursed $333,592 (2002 - $401,089) from the Unappropriated Fund.

**Special Projects Fund**

The Special Projects Fund was established to provide funding for significant special projects of the Organization. Income earned from the Unappropriated Fund, invested in the Diversified Fund and fixed income funds, is included in revenue for the Special Projects Fund. The current funding is for the development and implementation of a new trust management technology system.

**Litigation Reserve Fund**

The Litigation Reserve Fund is used to cover expenses and costs of legal proceedings paid by the Public Guardian and Trustee on behalf of its litigation clients.

During the year the Fund was reimbursed $171,402 (2002 - $187,110) from the Unappropriated Fund for legal costs incurred on behalf of the clients.

**Allowance for Doubtful Accounts Fund**

The intent of the Allowance for Doubtful Accounts Fund is to provide for all clients' accounts whereby The Public Guardian and Trustee has advanced funds on a client's behalf and has a statutory lien pursuant to section 8.1 of the *Public Guardian and Trustee Act* but may not be able to recover the amount from the client.

**Capacity Assessment Fund**

The Capacity Assessment Fund was set up to cover fees of capacity assessors when a client is unable to pay for the costs of an assessment or re-assessment.

During the year the Fund was reimbursed $16,921 (2002 - $11,731) from the Unappropriated Fund.

**Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, current bank accounts and short term deposits, if any, with terms to maturity of less than 90 days.

# The Public Guardian and Trustee for the Province of Ontario

## Summary of Significant Accounting Policies

**March 31, 2003**

**Investments**

**Funds Invested**

Funds are invested in high quality fixed income instruments subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by the Public Guardian and Trustee with emphasis on preservation of capital and maximizing return. This includes US dollar trust funds where the Accountant of the Superior Court of Justice is ordered by the courts to hold these funds in US dollars.

The funds invested are reflected at cost adjusted for the amortization of premiums or discounts on purchase over the period to maturity, where these securities are intentionally held to maturity.

Interest income is distributed to participants by a prescribed interest rate approved by The Public Guardian and Trustee's Investment Advisory Committee.

**Diversified Fund**

The Public Guardian and Trustee has a Diversified Fund that includes high quality equity and fixed income securities. This fund was established in order to provide an alternative for those clients whose unique investment objectives require a broader, longer range investment strategy. The fund is subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee with emphasis on the need to preserve and enhance the purchasing power of capital over the longer term. The Administration Fund also participates in the Diversified Fund. (See Schedule E)

The investment returns on this fund accrue directly to the participants and the investments are carried at market value.

**Stocks and Bonds of Estates and Trusts**

Stocks and bonds of Estates and Trusts are recorded at their market value at the time of taking over the Estates and Trusts. An annual adjustment to market value is made, as a minimum, at December 31 each year, with occasional revaluations made during the year.

**Real Estate**

Real estate is recorded at appraised value at the time of incorporation of the trust and is subject to periodic revaluations.

**Life Insurance**

Life insurance is recorded at its cash surrender value at the time of incorporating the trust and is subject to valuation every two years.

# The Public Guardian and Trustee for the Province of Ontario

## Summary of Significant Accounting Policies

March 31, 2003

**Foreign Currency Translation**

Foreign currency amounts are translated to Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars by the use of the exchange rate in effect at that date.

At the year end date, US dollar monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income in the current period. As of March 31, 2003 The Public Guardian and Trustee held only US dollars in foreign currency.

**Use of Estimates**

The preparation of financial statements in accordance with the accounting policies noted above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from management's best estimates, as additional information becomes available in the future.

## The Public Guardian and Trustee for the Province of Ontario

### Notes to Financial Statements

**March 31, 2003**

### 1. Funds Escheated to the Crown

The Public Guardian and Trustee is authorized by the *Escheats Act* to take possession of property reverting to the Crown under the *Succession Law Reform Act*, *Business Corporations Act*, or common law. After a period of ten years, any property so received by The Public Guardian and Trustee which remains unclaimed is transferred to the Consolidated Revenue Fund of the Province.

No transfer was made during the year to the Consolidated Revenue Fund of the Province. In 2002 - $257,555 was transferred to the Province.

### 2. Transfers to Consolidated Revenue Fund

Pursuant to Section 9(5) of *The Public Guardian and Trustee Act*, the Lieutenant Governor in Council may from time to time direct the payment into the Consolidated Revenue Fund of the Province of any balance at the credit of the Administration Fund.

No transfers were made during the year to the Consolidated Revenue Fund of the Province.

### 3. Employee Future Benefits

The Public Guardian and Trustee provides pension benefits for its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund which are multiemployer defined benefit pension plans. These plans are accounted for as defined contribution plans as the Organization has insufficient information to apply defined benefit plan accounting. The expense represents the Organization's contribution to the plans during the year. The Public Guardian and Trustee's share of contributions to these Funds during the year was $986,603 (2002 - $799,384) and is included in employee benefits in the Statement of Revenue and Expenditures – Unappropriated Fund. The cost of post-retirement, non-pension employee benefits are paid by Management Board Secretariat and are not included in the Statement of Revenue and Expenditures – Unappropriated Fund.

### 4. Mortgages and Securities in Trust

The Public Guardian and Trustee in its capacity as Accountant of the Superior Court of Justice also acts as custodian of mortgages in the amount of $1,004,108 (2002 - $501,133) and miscellaneous securities and documents having a face value of $3,928,285 (2002 - $3,709,732). These amounts are not reflected in the financial statements as The Public Guardian and Trustee does not act as trustee of these funds but simply as custodian of the instruments on behalf of the client. The Public Guardian and Trustee as custodian holds also letter of credits, lien bonds, guardianship bonds and performance guarantee bonds for litigants.

### 5. Deferred Interest Provision

This provision was to cover any potential losses from investment strategies. It was determined that the funds were no longer required to cover losses and the total amount of $8,100,000 was distributed to Estates and Trusts.

# The Public Guardian and Trustee for the Province of Ontario

## Notes to Financial Statements

**March 31,2003**

### 6. Contingencies

The Public Guardian and Trustee is involved in various legal actions arising in the normal course of operations, the outcome and ultimate disposition of which are not determinable at this time.

### 7. Comparatives

Certain of the comparative figures have been reclassified to conform to current presentation.

## The Public Guardian and Trustee for the Province of Ontario

### Schedule A - Funds Invested

(in thousands of dollars)

| March 31 | | 2003 | 2002 |
|---|---|---|---|
| **Cash** | | $ 3,691 | $ 13,893 |
| **Accrued interest** | | 10,101 | 11,443 |
| **Short term investments** | | 483,248 | 91,641 |
| | | 497,040 | 116,977 |
| **Long term investments** | | | |
| Corporate Bonds | (i) | 51,436 | 170,450 |
| Federal Government | (ii) | 97,919 | 187,825 |
| Provincial Governments | (iii) | 117,298 | 199,874 |
| Financial Institutions | (iv) | 60,647 | 117,131 |
| | | 327,300 | 675,280 |
| | | $ 824,340 | $ 792,257 |
| **Allocated as follows** | | | |
| Estates and Trusts | | $ 819,188 | $ 780,061 |
| Administration Fund | | 5,152 | 12,196 |
| | | $ 824,340 | $ 792,257 |

| **Long term investments** | Interest Rates | Cost | Market Value |
|---|---|---|---|
| (i) Corporate Bonds | | | |
| 1 - 3 years | 3.70 - 7.75% | $ 51,436 | $ 51,742 |
| 3 years + | - | - | - |
| | | 51,436 | 51,742 |
| (ii) Federal Government | | | |
| 1 - 3 years | 3.50 - 9.00% | 97,919 | 98,955 |
| 3 years + | - | - | - |
| | | 97,919 | 98,955 |
| (iii) Provincial Governments | | | |
| 1 - 3 years | 4.87 - 8.25% | 117,298 | 118,407 |
| 3 years + | - | - | - |
| | | 117,298 | 118,407 |
| (iv) Financial Institutions | | | |
| 1 - 3 years | 4.55 - 6.60% | 26,166 | 26,533 |
| 3 years + | 5.10 - 8.40% | 34,481 | 34,445 |
| | | 60,647 | 60,978 |
| | | $ 327,300 | $ 330,082 |

## The Public Guardian and Trustee for the Province of Ontario

### Schedule B - Diversified Fund

(in thousands of dollars)

| March 31 | 2003 | 2002 |
|---|---|---|
| Cash (bank indebtedness) | $ (18) | $ 59 |
| Accrued interest | 138 | 583 |
| Short term notes | 6,822 | 6,593 |
| | 6,942 | 7,235 |
| Bonds | 41,480 | 45,341 |
| Canadian equity | 31,512 | 37,356 |
| Foreign equity | 26,728 | 33,449 |
| | $ 106,662 | $ 123,381 |
| **Allocated as follows** | | |
| Estates and Trusts | $ 60,478 | $ 72,872 |
| Administration Fund | 46,184 | 50,509 |
| | $ 106,662 | $ 123,381 |

### Schedule C - Other Assets

(in thousands of dollars)

| March 31 | 2003 | 2002 |
|---|---|---|
| Real estate | $ 52,620 | $ 46,587 |
| Stocks and other securities | 37,028 | 29,376 |
| Mortgages and loans receivable | 859 | 894 |
| Life insurance | 3,145 | 3,066 |
| Other | 9,808 | 9,602 |
| | 103,460 | 89,525 |
| Less: Mortgages and loans payable | 6,332 | 3,960 |
| | $ 97,128 | $ 85,565 |

## The Public Guardian and Trustee for the Province of Ontario

### Schedule D - Income from Funds Invested

(in thousands of dollars)

| For the year ended March 31 | | 2003 | | 2002 |
|---|---|---|---|---|
| Income from investments | $ | 47,904 | $ | 45,856 |
| Gain (Loss) on sale of investments | | 987 | | (1,519) |
| | | 48,891 | | 44,337 |
| Less: Income distributed to Estates and Trusts | | 47,081 | | 42,868 |
| Deferred interest provision (Note 5) | | - | | 500 |
| | | 47,081 | | 43,368 |
| | $ | 1,810 | $ | 969 |

### Schedule E - Income (loss) from Diversified Fund - Administration Fund

(in thousands of dollars)

| For the year ended March 31 | | 2003 | | 2002 |
|---|---|---|---|---|
| Income from investments | $ | 1,254 | $ | 1,232 |
| Unrealized appreciation (depreciation) of diversified fund | | (5,994) | | 1,311 |
| | $ | (4,740) | $ | 2,543 |

Workplace Safety and Insurance Board

# Responsibility for financial reporting

The accompanying financial statements were prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied, and include amounts based upon management's best estimates and judgements. Any financial information contained elsewhere in the Annual Report is consistent with these financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are properly accounted for and safeguarded from loss. The Board of Directors has established an Audit Committee, to ensure that management fulfils these responsibilities. The Audit Committee meets periodically with management, internal auditors and external auditors to ensure that their responsibilities are properly discharged with respect to financial statement presentation, disclosure and recommendations on internal control.

The Internal Audit Branch performs audits designed to test the adequacy and consistency of the WSIB's internal controls, practices and procedures.

The external auditors, KPMG LLP, working under the direction of the Provincial Auditor, have performed an independent audit of the financial statements of the WSIB in accordance with Canadian generally accepted auditing standards. Their report outlines the scope of this independent audit and their opinion on the financial statements of the WSIB.

Eckler Partners Ltd., the independent consulting actuaries to the WSIB, express an opinion on the adequacy and appropriateness of the valuation of the WSIB's benefits liability.

David Williams
*President and*
*Chief Executive Officer*

March 11, 2003

Thomas Chan
*Vice-President*
*Finance and Corporate Services*
*and Chief Financial Officer*

# Auditors' report

KPMG

*To the Workplace Safety and Insurance Board,*
*the Minister of Labour*
*and to the Provincial Auditor*

Pursuant to the *Workplace Safety and Insurance Act* which provides that the accounts of the Workplace Safety and Insurance Board ("WSIB") shall be audited by the Provincial Auditor or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose, we have audited the balance sheet of the WSIB as at December 31, 2002 and the statements of operations and unfunded liability and cash flows for the year then ended. These financial statements are the responsibility of WSIB management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the WSIB as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
March 11, 2003

# Balance sheet

| | AS AT DECEMBER 31 | |
|---|---|---|
| **($ Millions)** | **2002** | **2001** |
| **ASSETS** | | |
| Cash and cash equivalents | $ 122 | $ 7 |
| Receivables | 526 | 286 |
| Investments (note 3) | 10,361 | 10,674 |
| Injured Workers' Retirement Fund (note 4) | 434 | 412 |
| Property, plant, equipment and other assets (note 5) | 181 | 197 |
| | $ 11,624 | $ 11,576 |
| **LIABILITIES** | | |
| Payables and accruals | $ 389 | $ 313 |
| Mortgage payable (note 6) | 72 | 73 |
| Injured Workers' Retirement Fund (note 4) | 434 | 412 |
| Employee benefit plans (note 7) | 355 | 305 |
| Benefit liabilities (note 8) | 16,965 | 16,130 |
| | 18,215 | 17,233 |
| **UNFUNDED LIABILITY** (note 9) | (6,591) | (5,657) |
| | $ 11,624 | $ 11,576 |

On behalf of the Board of Directors:

Ron Hikel, Acting Chair
Director

Eileen Mercier, Vice-Chair
Director

The accompanying notes form an integral part of the financial statements.

# Statement of operations and unfunded liability

FOR THE YEAR ENDED DECEMBER 31

| ($ Millions) | 2002 | 2001 |
|---|---|---|
| **CURRENT OPERATIONS** | | |
| **Revenues** | | |
| Premiums for the year | $ 1,997 | $ 1,866 |
| Investments (note 3) | 246 | 765 |
| | 2,243 | 2,631 |
| **Expenses** | | |
| Benefit costs (note 8) | 3,575 | 3,025 |
| Injured Workers' Retirement Fund | 52 | 50 |
| Administrative and other expenses (note 10) | 240 | 236 |
| Legislated obligations and commitments (note 11) | 160 | 162 |
| | 4,027 | 3,473 |
| **Excess (deficiency) of revenues over expenses from current operations** | (1,784) | (842) |
| Premiums for unfunded liability | 902 | 860 |
| Transfer of Electrical Utilities from Schedule 2 (note 12) | (52) | - |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES APPLIED TO THE UNFUNDED LIABILITY** | (934) | 18 |
| **Unfunded liability**, beginning of year | 5,657 | 5,675 |
| **Unfunded liability**, end of year (note 9) | $ 6,591 | $ 5,657 |

The accompanying notes form an integral part of the financial statements.

# Statement of cash flows

| FOR THE YEAR ENDED DECEMBER 31 | | |
|---|---|---|
| **($ Millions)** | **2002** | **2001** |
| **OPERATING CASH FLOWS** | | |
| Cash received from: | | |
| Premiums for the year | $ 1,965 | $ 1,856 |
| Cash paid to: | | |
| Claimants, survivors and care providers | (2,614) | (2,508) |
| Injured Workers' Retirement Fund | (21) | (24) |
| Employees and suppliers for administrative goods and services | (484) | (449) |
| Legislated obligations and commitments | (162) | (157) |
| | (3,281) | (3,138) |
| **Net cash required by current operations** | (1,316) | (1,282) |
| **INVESTING CASH FLOWS** | | |
| Investment income | $ 337 | $ 399 |
| Sale of investments | 9,015 | 7,670 |
| Purchase of investments | (8,809) | (7,688) |
| **Net cash provided by investing activities** | 543 | 381 |
| **Cash received from premiums for unfunded liability** | 888 | 856 |
| **Increase (decrease) in cash and cash equivalents** | 115 | (45) |
| Cash and cash equivalents, beginning of year | 7 | 52 |
| Cash and cash equivalents, end of year | $ 122 | $ 7 |

The accompanying notes form an integral part of the financial statements.

# Notes

## to the financial statements

DECEMBER 31, 2002

## 1. Nature of operations

The Workplace Safety and Insurance Board (WSIB) is a statutory corporation created by an *Act* of the Ontario Legislature in 1914. The WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997.* The WSIB promotes the prevention of injuries and illnesses in Ontario workplaces and provides insurance benefits to workers who sustain injuries in the course of employment or contract occupational diseases. The WSIB also provides insurance benefits to survivors of workers who die due to workplace injuries or illnesses.

Employers covered by the *Workplace Safety and Insurance Act, 1997,* are divided into two groups, referred to as "Schedule 1" and "Schedule 2." Schedule 1 employers are insured under a "collective liability" system and are required to contribute to the WSIB Insurance Fund. Schedule 2 employers are "self-insured" and are individually liable for the full costs of their workers' claims. The WSIB pays insurance benefits for Schedule 2 workers and is reimbursed by their employers for the costs of the claims, including administrative costs, and for the cost of the WSIB's prevention activities.

The WSIB also administers the federal *Government Employees Compensation Act.* Under agreement with Human Resources Development Canada, the federal government is treated like a Schedule 2 employer.

Revenue is raised through premiums, which are collected from all Schedule 1 employers covered under the *Workplace Safety and Insurance Act, 1997.* Revenue is also earned from a diversified investment portfolio held to meet future obligations on existing claims. Schedule 2 reimbursements also contribute to WSIB revenue. The WSIB receives no government funding or assistance.

## 2. Significant accounting policies

The consolidated financial statements include the Schedule 1 and Schedule 2 accounts of the WSIB and its wholly owned subsidiaries. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

The significant accounting policies are summarized as follows:

### Cash and cash equivalents

Cash and cash equivalents are funds consisting of cash and money-market instruments with initial maturities of up to three months.

### Investments

Investments comprise short-term securities, bonds, equities and real estate.

**Carrying value**

Short-term securities consist of money market instruments with maturities between three and 12 months and are carried at cost. Gains and losses from sales are included in income for the year in which they occur.

Bonds and coupons are carried at amortized cost. Realized gains and losses on the sale of bonds and coupons are deferred and amortized over either 20 years or the period to maturity of the security, whichever is the lesser.

Equities and real estate are carried at cost, adjusted towards fair value, using a five-year moving average market method. Realized gains and losses are deferred and amortized over a four-year period.

**Fair value**

Investments are valued at year-end quoted prices where available. Where quoted prices are not available, estimated fair values are calculated based upon the yields and values of comparable marketable securities.

Cash and cash equivalents denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date.

The carrying value of short-term securities, treasury bills and term deposits maturing within a year, plus accrued interest income, approximates the fair value of these instruments.

The fair value of bonds and equities denominated in foreign currencies is translated to Canadian dollars at the exchange rate in effect at the balance sheet date.

The fair value of real estate is based on appraised values conducted on a cyclical basis.

Pooled fund investments are valued at the unit values supplied by the pooled fund administrator. These values represent the WSIB's proportionate share of underlying net assets at fair values determined using closing market prices.

### Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date, with the exception of derivative contracts, which are carried at the exchange rate negotiated. Revenue and expenses are translated at exchange rates in effect on the transaction date. Realized and unrealized exchange gains and losses are included in income.

### Derivative financial instruments

The WSIB is party to forward foreign-exchange contracts. On inception, the carrying value of the receivables and payables resulting from these contracts is included in the carrying value of investments. At maturity, the realized gains and losses on forward foreign-exchange contracts are deferred and amortized over a four-year period.

### Fair value of other financial assets and liabilities

The carrying value of receivables and payables approximates their fair value because of the short-term nature of these instruments.

### Injured Workers' Retirement Fund

The Injured Workers' Retirement Fund is invested in short-term securities, bonds, equities and a pooled fund. These investments are carried at fair value as described above. Changes in fair value are included in investment income of the Injured Workers' Retirement Fund in the year in which they occur.

### Property, plant, equipment and other assets

Property, plant, equipment and other assets are recorded at cost. The cost of buildings includes development, financing and other costs capitalized prior to the day they become fully operational. At this time, depreciation commences. Capital assets are depreciated using the straight-line method, at rates calculated to expense the cost of assets over their estimated useful lives. In the case of buildings, office equipment and computer equipment, useful lives are estimated at 20 years, five years and three years respectively.

### Premiums

In advance of the fiscal year, the WSIB determines the total amount of premiums to be paid by Schedule 1 employers and notifies them of their premium rates for the following year. Premium revenue is determined by applying premium rates to Schedule 1 employers' payrolls.

Premium rates include a component that is applied to reduce the unfunded liability.

Schedule 2 employers are individually liable to pay all insurance benefits with respect to their workers' claims. Reimbursements for claims paid and the cost of administering the claims are included in premium revenue.

### Benefit liabilities

Benefit liabilities are determined annually through an actuarial valuation. They represent a provision for future benefit payments and the future cost of administering claims incurred on or before December 31. The provision has been determined by estimating future benefit payments in accordance with the adjudication practices in effect at December 31 and relevant legislation.

The benefit liabilities do not include any provision for payment of Schedule 2 claims. The costs of these claims are not considered WSIB liabilities because they are a liability of Schedule 2 employers.

Benefit liabilities do not include any provision for future claims relating to occupational diseases, or for injuries and illnesses that are not currently considered to be work-related.

## 3. Investments and investment revenue

*The carrying value of investments comprises:*

| **($ Millions)** | **2002** | **2001** |
|---|---|---|
| Investments at cost | $ 10,376 | $ 10,774 |
| Adjustments towards fair value | 265 | 575 |
| Unamortized net gains realized on sale of investments | (328) | (731) |
| Accrued investment income | 48 | 56 |
| | $ 10,361 | $ 10,674 |

*Value of investments by category are as follows:*

| **($ Millions)** | **2002** | | **2001** | |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| **Fixed-income securities** | | | | |
| Bonds | $ 1,854 | $ 2,374 | $ 2,659 | $ 3,147 |
| | 1,854 | 2,374 | 2,659 | 3,147 |
| **Equities** | | | | |
| Domestic | 2,060 | 2,140 | 3,041 | 3,573 |
| Foreign -U.S. | 2,657 | 2,597 | 783 | 930 |
| -Global | 3,386 | 3,061 | 3,745 | 3,855 |
| | 8,103 | 7,798 | 7,569 | 8,358 |
| **Real estate** | 356 | 374 | 390 | 412 |
| **Accrued investment income** | 48 | 48 | 56 | 56 |
| | $10,361 | $10,594 | $ 10,674 | $11,973 |

### Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates as compared to the Canadian dollar. The WSIB uses foreign-exchange contracts to hedge currency risk. Foreign-exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception. The fair value of these financial instruments would change in response to changes in the underlying variables affecting the contracts, such as changes in the foreign-exchange rates of the currencies involved in the contracts.

The notional amounts in foreign-exchange contracts are the contractual amounts on which payments are made. These notional amounts have been converted into Canadian dollars at the contractual exchange rates in effect at the inception of the contracts. 2002 outstanding contracts mature in the first three months of 2003.

At December 31, 2002, the notional value of outstanding foreign currency contracts was $243 million (2001: $325 million). Outstanding contracts in a favourable position had a fair value of $8 million (2001: nil) and those in an unfavourable position had a fair value of negative $7 million (2001: $5 million).

The fair value of the investment portfolio includes $5,631 million (2001: $4,775 million) of securities denominated in foreign currency.

*Bonds by term to maturity as at December 31:*

| **($ Millions)** | | | **2002** | | | **2001** |
|---|---|---|---|---|---|---|
| | | | **Term to maturity** | | | |
| | **Up to 1 year** | **1–5 years** | **5–10 years** | **Over 10 years** | **Total** | **Total** |
| **Government bonds** | | | | | | |
| Carrying value | $ – | $ 717 | $ 523 | $ 434 | $ 1,674 | $ 2,238 |
| Fair value | $ – | $ 743 | $ 552 | $ 463 | $ 1,758 | $ 2,315 |
| Yield (%)* | – | 3.5 | 4.6 | 5.5 | 4.4 | 4.8 |
| **Corporate bonds** | | | | | | |
| Carrying value | $ 4 | $ 231 | $ 182 | $ 172 | $ 589 | $ 810 |
| Fair value | $ 4 | $ 241 | $ 193 | $ 178 | $ 616 | $ 832 |
| Yield (%)* | 4.4 | 4.1 | 5.4 | 6.3 | 5.2 | 5.4 |
| Less: Unamortized gain | – | – | – | – | $ 409 | $ 389 |
| **Total** | | | | | | |
| Carrying value | $ 4 | $ 948 | $ 705 | $ 606 | $ 1,854 | $ 2,659 |
| Fair value | $ 4 | $ 984 | $ 745 | $ 641 | $ 2,374 | $ 3,147 |
| Yield (%)* | 4.4 | 3.7 | 4.8 | 5.7 | 4.6 | 5.0 |

*The average yield reflects the yield to maturity which is the discount rate that makes the present value of future cash flows for each bond equal to its fair value at December 31

### Securities lending

WSIB earns additional income by participating in a securities-lending program. Securities it owns are loaned to others for a fee and are secured by high-quality collateral. The fair value of the collateral always exceeds the fair value of the securities loaned and the collateral is marked to market daily. The program is managed by a financial institution in Canada.

At December 31, 2002, the fair value of securities on loan was $992 million (2001: $1,637 million).

*Deferred net realized gains and unrealized net losses were amortized to investment revenue in the year as follows:*

| **($ Millions)** | **2002** | **2001** |
|---|---|---|
| Net realized gains (losses) | $ 225 | $ 457 |
| Net unrealized gains (losses) | (310) | (78) |
| | $ (85) | $ 379 |

*Revenue by category of investment is as follows:*

| **($ Millions)** | **2002** | **2001** |
|---|---|---|
| Short-term securities | $ 4 | $ 8 |
| Bonds | 203 | 250 |
| Equities and real estate | 62 | 527 |
| | 269 | 785 |
| Investment expenses | (23) | (20) |
| Investment revenue | $ 246 | $ 765 |

## 4. Injured Workers' Retirement Fund

For injuries and illnesses that occurred prior to January 1, 1998, the WSIB sets aside funds equal to 10 per cent of every payment made to injured workers.

Effective January 1, 1998, for claims incurred after December 31, 1997, for workers who have received loss-of-earnings benefits for 12 continuous months, the WSIB sets aside 5 per cent of their loss-of-earnings benefits for their retirement fund. Injured workers may choose to contribute a further 5 per cent from their loss-of-earnings benefits. These funds are segregated from the WSIB's Insurance Fund and are invested to provide retirement income benefits for injured workers.

*The carrying value of the Fund at December 31 is as follows:*

| **($ Millions)** | **2002** | **2001** |
|---|---|---|
| Cash and cash equivalents | $ 29 | $ 2 |
| Bonds | 95 | - |
| Equities | 113 | - |
| Investment in pooled fund | 197 | 410 |
| | $ 434 | $ 412 |

The underlying securities in the pooled fund include fixed-income securities valued at $67 million (2001: $155 million), equities valued at $123 million (2001: $242 million) and money-market instruments valued at $7 million (2001: $13 million).

*The change in net assets is as follows:*

| **($ Millions)** | **2002** | **2001** |
|---|---|---|
| Funds set aside under the *Act* | $ 52 | $ 50 |
| Investment loss | (15) | (12) |
| Benefit costs paid | (15) | (14) |
| Increase in net assets | 22 | 24 |
| Net assets, beginning of year | 412 | 388 |
| Net assets, end of year | $ 434 | $ 412 |

## 5. Property, plant, equipment and other assets

| **($ Millions)** | **2002** | | **2001** |
|---|---|---|---|
| | **Cost** | **Net carrying value** | **Net carrying value** |
| Buildings and leasehold improvements | $ 218 | $ 137 | $ 150 |
| Office equipment | 109 | 7 | 11 |
| Computer equipment | 107 | 24 | 24 |
| | 434 | 168 | 185 |
| Other assets | 13 | 13 | 12 |
| | $ 447 | $ 181 | $ 197 |

Depreciation expense in 2002 was $43 million (2001: $35 million).

## 6. Mortgage payable

The WSIB, through its wholly owned subsidiary 799549 Ontario Inc., is a 75 per cent participant in a co-ownership agreement for its head office building at 200 Front Street West, Toronto. To fund part of the development and construction of the building, the WSIB entered into a long-term mortgage loan agreement in 1993. The mortgage loan is secured by the building, and matures in the year 2015. The interest rate is fixed at 10.25 per cent per annum, compounded semi-annually.

The fair value of the mortgage payable as of December 31, 2002 was $80 million (2001: $90 million), with a book value of $72 million (2001: $73 million). The $7-million mortgage interest expense for the year was charged against occupancy costs.

## 7. Employee benefit plans

The WSIB has several benefit plans that provide pension and other post-employment benefits. The cost of employee benefit plans is recognized in the reporting period in which employees have been provided with the service.

### Pension and other benefit plans

The WSIB has two pension plans for its employees and employees of Ontario's Health and Safety Associations: the WSIB Employees' Pension Plan and the WSIB Employees' Supplementary Pension Plan.

The WSIB Employees' Pension Plan is a defined-benefit pension plan that provides for partially indexed pensions based on years of service and the best five consecutive years average earnings in the last ten years of employment. The WSIB Employees' Supplementary Pension Plan ensures that employees of the WSIB and Ontario's Health and Safety Associations whose earnings exceed the threshold earnings for the maximum pension benefit permitted under the federal *Income Tax Act* will receive pension benefits based on their total earnings.

The investment activities and the administrative and accounting functions of the pension plans are administered by the WSIB. The accrued pension obligations of the plans reflect management's estimates of salary escalation, investment rate of return, mortality of members, terminations and ages at which members will retire.

The WSIB also provides other benefits to eligible current and retired employees. These other benefits include medical, dental and life insurance, accrued vacation, short-term salary protection to cover periods of illness and other absences, as well as the costs of insurance benefits provided to employees who sustain injuries in the course of employment.

*Information about the WSIB's defined-benefit pension plans and other benefit plans, in aggregate, is as follows:*

| ($ Millions) | Employees' Pension Plan | | Employees' Supplementary Pension Plan | | Other Benefit Plans | | Total Plans | |
|---|---|---|---|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| **Accrued benefit obligation** | | | | | | | | |
| **Beginning of year** | $ 1,057.0 | $ 977.1 | $ 10.3 | $ 8.9 | $ 283.2 | $ 265.7 | $ 1,350.5 | $1,251.7 |
| Current service cost | 54.6 | 53.0 | 0.5 | 0.6 | 3.5 | 3.3 | 58.6 | 56.9 |
| Interest cost | 74.7 | 69.1 | 0.8 | 0.6 | 13.4 | 13.0 | 88.9 | 82.7 |
| Benefits paid | (35.4) | (34.7) | (0.1) | 0.0 | (4.8) | (4.3) | (40.3) | (39.0) |
| Employee past service contributions | 1.8 | 2.4 | 0.0 | 0.0 | 0.0 | 0.0 | 1.8 | 2.4 |
| Employee current service contributions | 0.0 | 0.0 | 0.3 | 0.2 | 0.0 | 0.0 | 0.3 | 0.2 |
| Past service benefit cost | 11.7 | 2.3 | 0.0 | 0.0 | 0.0 | 8.1 | 11.7 | 10.4 |
| Actuarial (gain) loss | (121.8) | (12.2) | (0.9) | 0.0 | 21.9 | (10.7) | (100.8) | (22.9) |
| Actuarial adjustment | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | 8.1 | 0.5 | 8.1 |
| **End of year** | 1,042.6 | 1,057.0 | 10.9 | 10.3 | 317.7 | 283.2 | 1,371.2 | 1,350.5 |
| **Plan assets** | | | | | | | | |
| **Fair value at beginning of year** | 1,147.1 | 1,186.8 | 1.2 | 0.8 | 0.0 | 0.0 | 1,148.3 | 1,187.6 |
| Actual return on plan assets | (56.2) | (7.4) | 0.0 | 0.0 | 0.0 | 0.0 | (56.2) | (7.4) |
| Employer contributions | 0.0 | 0.0 | 0.2 | 0.2 | 4.8 | 4.3 | 5.0 | 4.5 |
| Employee current service contributions | 0.0 | 0.0 | 0.3 | 0.2 | 0.0 | 0.0 | 0.3 | 0.2 |
| Employee past service contributions | 1.8 | 2.4 | 0.0 | 0.0 | 0.0 | 0.0 | 1.8 | 2.4 |
| Benefits paid | (35.4) | (34.7) | (0.1) | 0.0 | (4.8) | (4.3) | (40.3) | (39.0) |
| **Fair value at end of year** | 1,057.3 | 1,147.1 | 1.6 | 1.2 | 0.0 | 0.0 | 1,058.9 | 1,148.3 |
| **Funded status** | | | | | | | | |
| Funded status,-plan surplus (deficit) | 14.7 | 90.1 | (9.3) | (9.1) | (317.7) | (283.2) | (312.3) | (202.2) |
| Unamortized net actuarial (gain) loss | 63.7 | 43.8 | (1.8) | (1.0) | (23.6) | (43.9) | 38.3 | (1.1) |
| Unamortized past service costs | 13.8 | 2.3 | 0.0 | 0.0 | 29.0 | 31.3 | 42.8 | 33.6 |
| Unamortized transitional obligation | (129.7) | (141.4) | 5.5 | 6.0 | 0.0 | 0.0 | (124.2) | (135.4) |
| **Accrued benefit asset (liability)** | (37.5) | (5.2) | (5.6) | (4.1) | (312.3) | (295.8) | (355.4) | (305.1) |
| Accrued benefit obligation, end of year | 1,042.6 | 1,057.0 | 10.9 | 10.3 | 317.7 | 283.2 | 1,371.2 | 1,350.5 |
| Fair value of plan assets, end of year | 1,057.3 | 1,147.1 | 1.6 | 1.2 | 0.0 | 0.0 | 1,058.9 | 1,148.3 |
| **Funded status, plan surplus (deficit)** | 14.7 | 90.1 | (9.3) | (9.1) | (317.7) | (283.2) | (312.3) | (202.2) |
| **Net benefit expense** | | | | | | | | |
| Current service cost | 54.6 | 53.0 | 0.5 | 0.6 | 3.5 | 3.4 | 58.6 | 57.0 |
| Interest cost | 74.7 | 69.1 | 0.8 | 0.6 | 13.4 | 13.1 | 88.9 | 82.8 |
| Expected return on plan assets | (85.5) | (82.5) | 0.0 | 0.0 | 0.0 | 0.0 | (85.5) | (82.5) |
| Amortization of past service costs | 0.2 | 0.0 | 0.0 | 0.0 | 2.4 | 1.8 | 2.6 | 1.8 |
| Amortization of transitional obligation | (11.8) | (11.8) | 0.5 | 0.4 | 0.0 | 0.0 | (11.3) | (11.4) |
| Amortization of net loss (gain) | 0.0 | 0.0 | 0.0 | 0.0 | 2.1 | (1.0) | 2.1 | (1.0) |
| **Net benefit plan expense** | $ 32.2 | $ 27.8 | $ 1.8 | $ 1.6 | $ 21.4 | $ 17.3 | $ 55.4 | $ 46.7 |

*The significant actuarial assumptions adopted as at December 31 to value the Employees' Pension Plan, the Employees' Supplementary Pension Plan and other benefit plans are as follows:*

| (Per cent) | Employees' Pension Plan | | Employees' Supplementary Pension Plan | | Other Benefit Plans | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| Discount rate | 6.8% | 7.0% | 6.8% | 7.0% | 6.8% | 7.0% |
| Expected long-term rate of return on plan assets | 7.0 | 7.5 | 3.5* | 3.8* | – | – |
| Rate of compensation escalation | 4.0 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 |
| Medical cost escalation | – | – | – | – | 7.0 | 7.0 |
| Dental cost escalation | – | – | – | – | 4.0 | 4.0 |
| Average remaining service period (yrs) | 14 | 14 | 14 | 14 | 14 | 14 |

* Adjusted to reflect the impact of 50% refundable tax, under the Income Tax Act (Canada)

As at year-end 2002, the WSIB's accrued liability for employee future benefits, other than pensions, was $312 million (2001: $296 million)

## 8. Benefit liabilities and benefit costs

Benefit liabilities represent an actuarially determined provision for future benefit payments relating to incurred claims and the expense of administering those benefits, and are discounted to present value at the assumed net investment returns shown below. Estimates of future benefit payments apply to both reported and unreported claims resulting from injuries and illnesses that occurred on or before December 31, 2002. They are based on the level and nature of entitlement, and adjudication practices in effect at December 31, 2002. The benefit liabilities were determined using accepted actuarial practices in accordance with the standards established by the Canadian Institute of Actuaries.

The actuarial present value of future benefit payments depends on economic and actuarial assumptions that are based on past experience, modified for current trends. These assumptions may change over time to reflect underlying conditions, and it is possible that such changes could cause a material change in the actuarial present value of future benefit payments. The following key long-term economic assumptions were used in the actuarial valuation of the benefit liabilities:

| (Per cent) | 2002 | 2001 |
|---|---|---|
| Inflation rate | 3.0% | 3.0% |
| Investment rate of return | 7.0 | 7.0 |
| Rate of indexation of benefits | | |
| -Fully indexed | 3.0 | 3.0 |
| -Partially indexed | 0.5 | 0.5 |
| Investment return, net of indexation | | |
| -Fully indexed | 4.0 | 4.0 |
| -Partially indexed | 6.5 | 6.5 |
| Wage escalation rate | 4.0 | 4.0 |
| Health-care costs escalation rate | 6.5 | 4.0 |

Mortality estimates are based on injured-worker mortality experience from 1991 to 1995. Mortality estimates for survivors of deceased workers are based on the 1990 to 1992 Ontario Life Tables prepared by Statistics Canada, adjusted for mortality improvements. Provisions have been made for the effect of future increases in the covered earnings ceiling and indexation of benefits.

Management believes the amount provided for future payments to be adequate. Long-term economic and actuarial assumptions and methods are reviewed annually at December 31, when an independent actuarial valuation is performed.

The actuarial present value of future benefit payments for reported and unreported work-related injuries and illnesses are recorded as benefit costs. Any adjustments resulting from the continual review of entitlements and experience, or from changes in legislation, assumptions or methods, are also included as benefit costs.

The benefit liabilities include a provision of $808 million (2001: $768 million) for future costs of administering existing claims. Administrative and other expenses have been reduced by $284 million (2001: $261 million). This amount was released from the provision for benefit liabilities relating to claim administration expense in the current year.

In 2002, the WSIB revised its benefit category classifications. The new classifications are based on the *Workplace Safety and Insurance Act, 1997.* Under current legislation there is no distinction between short-term and long-term loss-of-earnings benefits. Prior to 1998, there was a time limit of 12 months on short-term benefits, after which time workers were provided with future economic loss (FEL) benefits, which were classified as long-term benefits.

Current legislation removes the distinction between short-term and long-term benefits that previously existed. In 2002, a new benefit category, "loss-of-earnings," is introduced to reflect current legislation. The short-term and long-term benefit categories reported separately prior to 2002 are now combined into one category: "short- and long-term disability."

*Benefit liabilities provision and benefit costs paid in 2002 are as follows:*

| ($ Millions) | 2002 | | | | | | | | 2001 |
|---|---|---|---|---|---|---|---|---|---|
| | | Labour Market Re-entry | | | | | | | |
| | Loss of earnings | Income support | External providers | Short and long-term disability | Health care | Survivor benefits | Claim administration costs | Total | Total |
| **Benefit liabilities** | | | | | | | | | |
| Beginning of year | $ 1,358 | $ 189 | $ 207 | $10,625 | $ 1,499 | $ 1,484 | $ 768 | $16,130 | $15,860 |
| Transfer of Electrical Utilities from Schedule 2 (note 12) | 4 | 1 | 1 | 100 | 8 | 22 | 7 | 143 | - |
| **Benefit costs** | 742 | 39 | 158 | 1,196 | 892 | 231 | 317 | 3,575 | 3,025 |
| **Benefit costs paid** | | | | | | | | | |
| During the year | | | | | | | | | |
| Schedule 1 | (473) | (68) | (89) | (1,308) | (315) | (129) | (284) | (2,666) | (2,526) |
| Schedule 2 | (31) | (5) | (4) | (134) | (32) | (11) | - | (217) | (229) |
| | (504) | (73) | (93) | (1,442) | (347) | (140) | (284) | (2,883) | (2,755) |
| **Change in benefit liabilities** | 242 | (33) | 66 | (146) | 553 | 113 | 40 | 835 | 270 |
| **Benefit liabilities,** | | | | | | | | | |
| End of year | $ 1,600 | $ 156 | $ 273 | $10,479 | $ 2,052 | $ 1,597 | $ 808 | $16,965 | $16,130 |

## 9. Actuarial reconciliation of the change in the unfunded liability

*The actuarial reconciliation of the change in the unfunded liability is as follows:*

| ($ Millions) | 2002 | 2001 |
|---|---|---|
| Unfunded liability, beginning of year | $ 5,657 | $ 5,675 |
| Add (deduct): | | |
| Transfer of Electrical Utilities from Schedule 2 | 52 | 0 |
| Investment income not earned due to shortfall in invested assets | 398 | 404 |
| Premiums allocated to reduction of unfunded liability | (902) | (860) |
| Experience (gains)/losses resulting from: | | |
| Indexation of benefits less than expected | 10 | (110) |
| Lower (higher) than expected investment returns | 531 | (8) |
| Prior and current years' claims experience | 65 | 77 |
| Changes in assumptions: | | |
| Long-term loss of earnings | 0 | 18 |
| Health-care benefits | 566 | 243 |
| Long-term disability | 52 | 100 |
| External agency rehabilitation payments | 67 | 36 |
| Other changes | 95 | 72 |
| Change in personal income tax rates | 0 | 10 |
| Unfunded liability, end of year | $ 6,591 | $ 5,657 |

## 10. Administrative and other expenses

*Administrative and other expenses consist of the following:*

| ($ Millions) | 2002 | 2001 |
|---|---|---|
| Salaries and employee benefits | $ 331 | $ 305 |
| Equipment depreciation and maintenance | 53 | 45 |
| Occupancy | 40 | 42 |
| Communication | 15 | 12 |
| Supplies and services | 20 | 20 |
| Travel and vehicle maintenance | 7 | 8 |
| New systems development and integration | 44 | 47 |
| Other | 14 | 18 |
| | 524 | 497 |
| Claim administration costs (note 8) | (284) | (261) |
| | $ 240 | $ 236 |

## 11. Related-party transactions

### Legislated obligations and commitments

Under the *Workplace Safety and Insurance Act, 1997*, and as directed by the Lieutenant Governor through Orders-in-Council, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the *Occupational Health and Safety Act*. The WSIB is also required to fund the Workplace Safety and Insurance Appeals Tribunal (WSIAT), the Offices of the Worker and Employer Advisor, and Ontario's mine rescue stations. These reimbursements and funding amounts are determined and approved by the Minister of Labour. The WSIB is also committed to providing funding for the Institute for Work and Health and Ontario's Health and Safety Associations, clinics and training centres.

The total amount of funding provided under these legislated obligations and commitments in 2002 was $160 million (2001: $162 million).

### Investments

Included in investments are marketable fixed-income securities issued by the Ontario provincial government and related corporations valued at $222 million (2001: $262 million).

### Other

In addition to legislated obligations and workplace health and safety expenses, the financial statements include amounts resulting from transactions conducted in the normal course of operations with various Ontario government-controlled ministries, agencies and Crown corporations. Such transactions are conducted on terms and conditions similar to those that apply to transactions with unrelated parties. Account balances resulting from these transactions are not significant.

## 12. Transfer of Electrical Utilities from Schedule 2

Electrical utilities, formerly agencies of provincial and municipal governments, were required to incorporate their operations under the *Ontario Business Corporations Act*. As a result, effective January 1, 2002, the WSIB transferred all electric utility employers previously covered under Schedule 2 to Schedule 1. The impact of this transfer in 2002 is an increase in premiums received of $91 million, an increase in benefit liabilities of $143 million and an increase in the unfunded liability of $52 million.

## 13. Commitments and contingencies

### Operating leases

At December 31, 2002, the WSIB was committed under non-cancelable operating leases requiring future minimum payments of approximately $18 million per year over the next five years, and $32 million in aggregate thereafter.

### Legal actions

The WSIB is party to various claims and lawsuits, which are being contested. In the opinion of management, the outcome of such claims and lawsuits will not have a material effect on WSIB expenses or financial position.

### Bank line of credit

The WSIB maintains an unsecured $150-million line of credit with a commercial bank. The credit line was not utilized in 2002.

## 14. Comparative figures

Certain of the comparative amounts have been reclassified to conform with the presentations adopted in the current year.

**Workplace Safety & Insurance Board**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| ABRAMS | BRENDA E. | Legal Counsel | $112,913.06 | $228.74 |
| ACHAR | RAMACH ANDRA | Medical Consultant | $147,437.12 | $247.25 |
| ADAMO | VALERIE | VP, Info Services and CIO | $181,361.80 | $316.32 |
| AH-YOONG | GEORGES | Project Director | $109,062.32 | $211.56 |
| ALLINGHAM | RICHARD | Director, Research and Evaluation | $116,925.24 | $237.06 |
| ANGOVE | LINDA | Corporate Secretary | $124,773.29 | $239.74 |
| ANSTEY | CALVIN | Director, Transportation Sector | $110,475.66 | $228.50 |
| ARGUE | ROBERT | Director, Applications Development | $112,459.76 | $228.82 |
| ARONSHTAM | MASHA | Medical Consultant | $128,858.01 | $266.74 |
| ARVISAIS | J. | Medical Consultant | $135,341.45 | $266.74 |
| BAIN | DONNA | Exec. Dir., Health Services Management | $154,622.71 | $276.90 |
| BELANGER | ADELE MARIE | Legal Counsel | $109,538.84 | $224.18 |
| BELL | SUSAN | Director, Central Claims Processing | $117,727.19 | $229.30 |
| BENNETTO | JOHN | Director, Services Sector | $109,219.46 | $221.30 |
| BISHOP | M. | Medical Consultant | $131,377.45 | $266.74 |
| BROWN | ELIZABETH | Legal Counsel | $112,769.67 | $230.74 |
| BURTON | NEIL | Director, Client Server Development | $120,461.81 | $234.50 |
| CAMPBELL | CLARK | Dir., Munic. Edu. & Electrical Utilities | $108,361.46 | $223.94 |
| CAMPBELL | COLIN | Security Architect | $117,847.03 | $159.03 |
| CANTLIE | GEORGE | Medical Consultant | $128,858.01 | $266.74 |
| CHAIN | MARYBELLE | Medical Consultant | $128,858.01 | $266.74 |
| CHAN | THOMAS | VP, Finance & Corp Services & CFO | $181,846.91 | $322.40 |
| CHEN | KATHY | Sr. Special Database | $111,598.82 | $164.84 |
| CLEARY | FLOREEN | Director, Pre 1990 Claims | $110,942.60 | $223.62 |
| CUDE | BEVERLEY | Director, Technology Services | $129,089.09 | $231.14 |
| DAVID | LAWRENCE | Medical Consultant | $128,858.01 | $266.74 |
| DE DOMENICO | IVAN J. | Medical Consultant | $129,574.08 | $266.74 |
| DESLAURIERS | JEAN | Medical Consultant | $125,757.20 | $257.74 |
| DJAN | P. A. | Medical Consultant | $146,427.28 | $247.25 |
| DORCAS | DOW | Medical Consultant | $125,402.63 | $0.00 |
| DOUGLAS | RICHARD ALEXA | Director, Employee Relations | $130,015.19 | $259.25 |
| DSOUZA | IRENE | Medical Consultant | $106,752.37 | $224.95 |
| DUDLEY | JOHN | Assoc. Director / Physician | $140,420.59 | $284.50 |
| FAHMY | NADIA | Director, Admin Services | $111,943.16 | $231.38 |
| FEDDER | JONATHAN E | Director, (Managing) Legal | $108,803.68 | $219.25 |
| FIELD | PAUL | Director, Small Business | $107,099.38 | $216.98 |
| FORSYTH-PETROV | DEBORAH | Director, Systems and Collections | $119,893.25 | $164.27 |
| FORTH | KENNETH | Director, Agriculture | $103,644.08 | $211.20 |
| FORTIN | CLAIRE MARIE | Dir., Med. Occupational Disease Policy | $105,912.41 | $217.78 |
| FOSTER | DAVID | Director, IS Audit | $100,088.57 | $195.14 |
| FRAME | DAVID A. | Director, Provider Relations | $105,874.16 | $204.36 |
| GALWAY | KATHLEEN | Director, Business Operations Audit | $106,546.33 | $204.20 |
| GARG | S. K. | Medical Consultant | $128,858.01 | $266.74 |
| GEARY | JUDY | GM CPP & Special Claim Services | $181,885.32 | $304.14 |
| GERMANSKY | MARTIN | Medical Consultant | $128,858.01 | $266.74 |
| GIBBS | HENRY | VP, Investments | $283,222.85 | $437.34 |
| GILLIES | JAMES | Dir., Financial Planning & Analysis | $118,167.81 | $229.30 |
| HADJISKI | ANNA | Medical Consultant | $128,858.01 | $266.74 |
| HALL | NICK M. | Director, Automotive Sector | $110,665.57 | $228.74 |

**Workplace Safety & Insurance Board**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| HAWKINS | ADAM J. | Director, Realty Investments | $146,575.60 | $240.74 |
| HECKADON | ROBERT | Assoc. Director / Physician | $157,252.50 | $0.00 |
| HERRINGTON | MICHAEL | Director, Small Business | $105,099.65 | $216.98 |
| HICKMAN | ROBERT | Medical Consultant | $128,762.00 | $266.74 |
| HIGGINS | JODI | Director, Small Business | $115,200.16 | $228.58 |
| HOLYOKE | PAUL | General Counsel | $203,035.10 | $346.32 |
| HORSEMAN | BROCK C. | Sr. VP, Operations | $309,633.28 | $486.84 |
| HOUSTON | ROBERTA | Legal Counsel | $104,479.23 | $213.28 |
| JOHNSTON | MICHAEL BRUC | Legal Counsel | $106,265.68 | $218.62 |
| JOLLEY | LINDA | VP, Policy and Research | $195,393.10 | $319.92 |
| JONES | DEREK | Medical Consultant | $122,404.36 | $259.54 |
| KANALEC | ANDREW D. | Medical Consultant | $128,858.01 | $266.74 |
| KELLY | J. BRIAN | Assoc. Director, Physician | $145,733.40 | $296.70 |
| KELLY | LINDA | Director, Specialist & Advisory Services | $108,557.33 | $208.89 |
| KEMPSTER | GEOFF | Director, Manufacturing Sector | $111,457.21 | $227.22 |
| KERR | FERGUS | Director, Mining Sector | $109,148.15 | $222.42 |
| KOSMIDIS | ELIZABETH | Legal Counsel | $112,197.04 | $227.70 |
| KOSMYNA | ROMAN | Board Auditor | $126,164.14 | $252.00 |
| KULYNYCH | HEIDI | Director, Corp. Exec. Office | $135,627.88 | $235.34 |
| KWONG | PAUL | Project Director | $122,393.15 | $226.98 |
| LAMANNA | PAT | Director, Small Business | $115,335.50 | $236.90 |
| LAMOUREUX | LINDA | Director, SIB | $179,943.15 | $308.80 |
| LAU | ROBERT HING | Director, Accounting | $101,913.69 | $207.24 |
| LESHCHYSHYN | DANA | Director, Construction Sector | $116,232.47 | $240.66 |
| LEVITSKY | MARIANNE | Director, Best Practices | $112,749.18 | $218.90 |
| LEWIS | OWEN | Director, Applications Development | $115,662.34 | $219.94 |
| LONDRY | DAVID | Director, Client Server Development | $120,189.69 | $229.06 |
| LOVELOCK | RONALD | Director, Prevention Services | $110,874.97 | $219.86 |
| LUCK | MARY | Director, Services Sector | $112,970.12 | $234.26 |
| MACDIARMID | ANN | VP, Communications | $128,324.25 | $248.88 |
| MAEHLE | WALDEMAR | Medical Consultant | $124,757.20 | $257.74 |
| MARTIN | PETER J | Director, Compensation | $121,212.81 | $244.34 |
| MASTRILLI | ARCANGELO | Medical Consultant | $128,858.01 | $266.74 |
| MCADAM | ROBERTA | Director, Revenue Audit Services | $110,788.63 | $224.02 |
| MCCARTHY | JANE | GM Health Services Admin/Spec Programs | $172,112.44 | $285.30 |
| MCCLEAVE | DAVE | Director, Small Business | $107,895.61 | $222.62 |
| MCKENNA-BOOT | PATRICIA | Medical Consultant | $129,680.75 | $263.90 |
| MCMURTRIE | ROBERT | Director, Financial Services | $115,158.97 | $235.06 |
| MEENAN | JOHN J | Medical Consultant | $124,757.20 | $257.74 |
| MIKKELSEN | ALLAN CHARLES | Finance HR Business Partner | $106,556.25 | $203.99 |
| MORDEN | DONALD LAWRE | VP Human Resources | $200,182.56 | $336.96 |
| MORRISON | RICHARD | Director, Small Business | $109,684.81 | $226.66 |
| MOULD | ROY | VP Prevention | $217,506.16 | $336.64 |
| PAINVIN | CATHERINE | Director, Clinical Resources | $155,686.60 | $312.00 |
| PETER | ALICE | Director, Research Secretariat | $102,256.25 | $207.92 |
| PRICHETT | BARRY | Medical Consultant | $128,858.01 | $266.74 |
| PUSHKA | WAYNE | Assistant Dir and Chief Investigator | $108,067.65 | $219.38 |
| RAMSEY | WILLARD | Actuary, Pricing & Valuation | $152,109.06 | $291.46 |
| RODENHURST | JOHN D. | Director, Business Innovations Services | $101,041.27 | $205.64 |
| ROHATYN | TARAS | Director, Small Business | $104,859.72 | $216.26 |

**Workplace Safety & Insurance Board**

| Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|
| SARATHY | PARTHA | Manager, Applications and Development | $102,926.22 | $183.56 |
| SCHOFIELD | MICHEL | Physician Coord Speclty Clinic | $145,774.71 | $295.26 |
| SCOPA | FERNAND | Director, Health Care Sector | $108,790.86 | $222.02 |
| SCULLION | CATHERINE | Medical Consultant | $124,229.18 | $256.58 |
| SGRO | JOSEPH | Director, Quality Improvement | $115,950.23 | $234.34 |
| SHAPIRO | GARY | Medical Consultant | $128,858.01 | $266.74 |
| SHERWIN | LINDA | Medical Consultant | $136,688.77 | $247.25 |
| SHEWELL | KATHRYN | Director, Corp Admin Services | $125,527.09 | $205.86 |
| SIMMONS | WAYNE B. | Director, Investments | $146,659.35 | $290.42 |
| SLINGER | JOHN | Director, Appeals | $131,323.41 | $258.66 |
| STASILA | DAVE | Director, Investments | $157,745.95 | $293.42 |
| TARASCHUK | IHOR | Medical Consultant | $124,757.20 | $257.74 |
| THOMAS | ROY E | Exec Director, Communications | $136,749.48 | $241.62 |
| THOMSON | GARRY | GM Industry Sector | $177,578.57 | $303.54 |
| TIMLIN | ROBERT J | Project Director | $109,725.21 | $215.20 |
| TODOROVIC | SLAVICA | Director, Benefits Policy | $116,925.24 | $237.06 |
| TOURCHIN | ROBERT W. | Director, Primary Metal Sector | $105,173.05 | $213.76 |
| TUCKER | CHERYL | Director, Community Relations | $105,889.07 | $210.60 |
| VALA WEBB | GORDON | Director, Knowledge Services | $117,063.56 | $237.70 |
| WALKER | JOHN | Medical Consultant | $128,858.01 | $266.74 |
| WALLACE | TIM | Sr. Spec, Operating Systems | $103,023.14 | $179.16 |
| WANG | KENNEDY | Director, Schedule II Sector | $118,338.79 | $219.58 |
| WEATHERBEE | WAYNE | GM Small Business Services | $179,345.76 | $305.62 |
| WELTON | IAN | Director, Revenue Policy | $116,925.24 | $237.06 |
| WENTZELL | SCOTT | Medical Consultant | $101,242.94 | $206.87 |
| WHITNEY | DAVID | Director, Small Business | $104,778.21 | $215.28 |
| WILLIAMS | DAVID | President & CEO | $608,434.06 | $830.44 |
| WILLIAMS | SUSAN | Director, Customer Care | $132,823.49 | $256.10 |
| WISKIN | JOHN | Director, Schedule II Sector | $109,547.72 | $220.10 |
| WRIGHT | GLEN | Chair of the Board | $168,269.50 | $199.80 |

## LOSSES DELETED FROM THE ACCOUNTS

### (Under the *Financial Administration Act*)
### for the year ended March 31, 2003

| Ministry | $ |
|---|---|
| FINANCE | 65,434,060.80 |
| COMMUNITY, FAMILY AND CHILDREN'S SERVICES | 7,859,646.88 |
| TRAINING, COLLEGES AND UNIVERSITIES | 4,931,222.90 |
| TRANSPORTATION | 2,620,471.99 |
| HEALTH AND LONG TERM CARE | 1,492,119.15 |
| MUNICIPAL AFFAIRS AND HOUSING | 1,162,064.12 |
| CONSUMER AND BUSINESS SERVICES | 368,854.14 |
| NORTHERN DEVELOPMENT AND MINES | 266,116.00 |
| MANAGEMENT BOARD SECRETARIAT | 138,073.86 |
| NATURAL RESOURCES | 94,447.15 |
| AGRICULTURE AND FOOD | 81,325.40 |
| ENTERPRISE, OPPORTUNITY AND INNOVATION | 52,267.00 |
| ENVIRONMENT AND ENERGY | 11,368.50 |
| PUBLIC SAFETY AND SECURITY | 4,732.64 |
| LABOUR | 50.00 |
| TOTAL MINISTRIES | 84,516,820.53 |
| ONTARIO DEVELOPMENT CORPORATION | 311,252.00 |
| **TOTAL WRITE-OFFS** | **$ 84,828,072.53** |

## REVENUE REMISSIONS OF $1,000 OR MORE

**(Under the *Ministry of Revenue Act*)**
**granted for the year -ended March 31, 2003**

| Ministry of Finance | $ |
|---|---|
| GE Capital Mortgage Insurance Canada (GEMICO) | 233,000 |

On February 3, 2003, the remission of Retail Sales Tax was granted pursuant to section 11 of the *Ministry of Revenue Act*, remission of interest payable by GEMICO on assessments under subsection 20(3) of the *Retail Sales Tax Act* for the period prior to July 1, 2001.

This exemption was made to avoid overly punitive implications in light of the decision to extend the RST exemption for mortgage insurance underwriting fees to fees charged by private insurers, it is equitable and in the public interest to waive the interest liability resulting from the penalty assessment.

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